

# Solicitors Regulation Authority Limited Financial Statements for the year ended 31 October 2023

Published June 2024



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## Foreword

This is our second full year of operating as Solicitors Regulation Authority Limited and the third report covering our activities as a distinct legal entity (DLE) within The Law Society Group. The arrangements are now established and working well. They deliver more transparency for the profession and the public about the roles and responsibilities of the Solicitors Regulation Authority (SRA) as the regulator and the Law Society as the professional body for solicitors in England and Wales.

As a regulator, we must be able to identify changes in the sector and respond swiftly and, in 2022/23, there was a lot of change. One of the biggest shifts has been around firm failures, and the potential impacts these have on consumers. There has been a significant increase in the number and scale of interventions we have had to carry out into firms. Most interventions are into small firms, however we have in the past four years intervened into three large firms, following a period of ten years with no such large firm interventions. In 2023, we made the largest ever intervention into Axiom Ince, where we found more than £60m of client money missing.

We have ensured consumers are protected in all these cases, but with the changing profile of risk, we need to be sure we can continue to protect the public appropriately in the future. This is why we have launched a review of consumer protection. The review will be a demanding piece of work for us, including extensive engagement with the public and the profession to explore all options and ensure we arrive at the right future approach.

We are also dealing with other high-profile cases, including an ongoing investigation into the Post Office Horizon scandal. As one of the largest miscarriages of justice in our country, serious questions are raised about the role of some of the lawyers and law firms involved. It

is essential we can hold those who have acted unethically to account and avoid any further erosion of trust in the profession linked to this scandal. We are therefore committing significant resource to these cases and working in tandem with the Inquiry.

We also began to use the increased fining powers we were given. As a result, we are now able to resolve issues more quickly, saving time and cost for everyone. We have also been overhauling our case management arrangements to reduce the time it takes us to conclude cases. We have made significant progress but have more to do.

Looking beyond our enforcement work, we have monitored the progress of the new Solicitors Qualifying Examination (SQE). More than 8,000 took the exams in 2022/23, and the number is growing fast. The assessment provides assurance that all qualifying solicitors have met the same, high standard.

Too many people struggle to get access to expert legal help when they need it, and while we cannot solve this problem, we can make a contribution. We are focusing on the way that new technology could help to bridge the gap. So, we continue work to support innovation and help firms adopt new technologies. We have secured further government funding to support such projects.

You can read more about how we have delivered against the three objectives in our 2020–2023 strategy in our business review in this report. We also developed our strategic plan for the next three years, engaging with close to 17,000 people. The new plan builds on our previous strategy with the singular aim of driving trust and confidence in legal services.

Our consolidated expenditure increased significantly, by £32m, in 2022–23. The two main reasons for the increase were rechargeable costs of administering the Compensation Fund, and our education and training expenditure on the SQE, funded through candidate fees.

Consolidated income also increased by £51m. This was largely driven by the same reasons, in addition to the one-off impact of consolidating the Solicitors Indemnity Fund. Further detail around these changes in the financial statements is included in this report.

The Board kept a focus on tight budgetary control as new priorities emerged throughout the year, identifying how to work effectively and deliver value for money. We committed to managing within the budgetary envelope we set for the three-year corporate strategy and have done so. However, despite a small surplus in 2023, reserves for the SRA only remain slightly below the range set by the Board.

Income from practising fees for the new corporate strategy (2023–26) has been set at a level that ensures we can deliver against our new objectives. But we have had to adjust plans for the pace of this work to ensure we have the resource for ongoing work, such as the consumer protection review.

We are pleased with our progress in reducing our carbon emissions and continue to pursue an investment policy that ensures we only invest in funds where we can be confident of high environmental, social and governance standards.

We are fully committed to good governance, to transparency and to accountability, and hope you find the contents of this report helpful. More information is available on the SRA website, including regular reporting on decision making and performance. We are always open to hearing your views and your feedback.

Anna Bradley  
Chair of the Board, Solicitors Regulation Authority

[Download: 2022-23 Annual report and accounts \(PDF 70 pages, 864KB\)](https://jobs.sra.org.uk/globalassets/documents/sra/research/solicitors-regulation-authority-limited-financial-statements-2023.pdf)  
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## **Strategic report**

The directors present their strategic report on the company for the year ended 31 October 2023.

### **Introduction to the Solicitors Regulation Authority**

The Solicitors Regulation Authority Limited was incorporated on 18 May 2020. On 1 June 2021 we began operating, carrying out a number of functions previously undertaken by the SRA as part of the Law Society, a Royal Charter Company (RC000304). The year ended 31 October 2023 represents the second full year of operations, and the first with a comparable length prior period.

The Solicitors Regulation Authority (SRA) is the regulator of solicitors and law firms in England and Wales. Our purpose is to drive confidence and trust in legal services. We work to protect members of the public and support the rule of law and the administration of justice. We are focused on the issues that can transform legal services, making sure the profession delivers the high standard of service the public deserves.

These include:

- maintaining trust in the profession – by making sure that all qualifying solicitors have met the same high standard, identifying and addressing new and emerging problems, and holding solicitors to account when things go wrong
- encouraging innovation in the legal sector to drive a better service for consumers
- reviewing our approach to consumer protection in the face of changing risks in the sector.

The SRA is a public benefit entity.

You can read more about our work in our [Corporate Strategy 2023-2026](https://jobs.sra.org.uk/sra/consultations/consultation-listing/corporate-strategy-2023-26/)  
<https://jobs.sra.org.uk/sra/consultations/consultation-listing/corporate-strategy-2023-26/>.

### **Business review**

2022/23 was the final year of our 2020-2023 strategy, which focused 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.

We are pleased to report some of our key achievements in delivering these three strategic priorities.

## **1. Setting and maintaining high standards**

### **Protecting the public**

- The vast majority of solicitors work to high standards. However, if solicitors fall short of what is expected, we step in to keep the public safe. We brought 99 cases to the Solicitors Disciplinary Tribunal (SDT) in the year. We also intervened into and closed down 65 law firms where we felt there was a significant and immediate risk to clients and the public.
- In July 2023 we closed down three solicitor firms that were named in an undercover newspaper operation involving immigration services. We stopped the firm from operating, took possession of all documents and papers held by the firm, and possession of all money held by the firm (including clients' money). The practising certificates of the solicitors were automatically suspended, so they can no longer practice as a solicitor.
- 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 £41m from the SRA Compensation Fund. The compensation fund is a non- consolidated

entity which is maintained and administered by the SRA under requirements set out in statute.

- From 1 October 2023, we took over management of the Solicitors Indemnity Fund (SIF), a special purpose entity providing run off professional indemnity cover to closed firms on claims arising from the work of solicitors prior to 1999. Following extensive consultation, our analysis showed that an SRA-run indemnity scheme was the most cost-effective and proportionate way to manage the residual relevant claims. This arrangement provides the same consumer protection for post-six-year negligence as a regulatory arrangement. We have appointed London insurance services provider Polo Works on an 18-month contract. It will handle new claims and work closely with the SIF panel firms handling open claims, to make sure of a smooth handover and continuity of service.
- Following consultation and changes in legislation, our fining powers for traditional firms increased and we also introduced fixed penalties. This change should help us resolve cases more quickly, saving time, cost and stress for everyone involved. We issued our first fixed penalties in Autumn 2023, to three firms breaching the SRA Transparency Rules.
- In August 2023 we suspended three directors at the law firm Axiom Ince for suspected dishonesty in relation to a suspected shortfall of more than £60 million on the firm's client account. In the best interests of clients we then worked with the firm's remaining directors to achieve as orderly a closure as possible, before intervening into the whole firm in October 2023.
- We, and our intervention agents, are continuing to deal with the aftermath of the closure, including providing advice to former clients, reviewing claims to the SRA Compensation Fund, liaising with law enforcement and progressing our own investigations. We uncovered the suspected dishonesty and missing client money in late July, as a result of a visit by our forensic investigation team, and further digging behind what on the face of it looked like well-ordered accounts. The nature of the suspected dishonesty was sophisticated and included falsified bank statements and letters.
- The Axiom case is the biggest intervention ever in England and Wales. We are also seeing an increasing number of large firms failing – we have also intervened in Kingly and Metamorph in recent years. Overall, the number of firms we have had to intervene into increased in the 2022-23 year, with twice as many interventions as the year before. This follows a number of years with a downward trend in intervention levels.
- We are in 2024 conducting a review of our arrangements for protecting consumers. The review will consider both whether the risk of harm to consumers from firms failing can be reduced and how to best protect consumers when there is a failure. We will act quickly where we can make changes that will benefit consumers, although some options may need detailed consideration and consultation and therefore take some time

## **Money laundering and sanctions**

- Preventing money laundering is a priority risk for the legal sector. We have a rolling programme of inspections to ensure firms' compliance with the money laundering regulations. We carried out 250 reviews and inspections in 2022/23. Through this and other proactive work, we have been able to provide advice and feedback to make sure law firms are complying with their obligations.
- When we find serious failings in this area, we take action. We handed out 23 fines totalling £61,600. The SDT handed out a further £75,802 worth of fines, as well as two suspensions.
- In addition, we issued a warning notice to the profession regarding non-compliance with the Money Laundering Regulations. This reminded the profession of its obligations in this area. We also developed a template to help firms to develop their own money laundering risk assessments, as a thematic review carried out in the year found that a significant majority had still not got theirs right.
- On sanctions, we responded promptly to a fast-changing situation through a combination of updated resources and spot checks on firms exposed to the Russian market to make sure firms comply. During the year, we asked firms questions about their approach to financial sanctions to better understand the risks in the sector.

## **The new Solicitors Qualifying Examination**

- The 2022-23 year was the second year of running the Solicitors Qualifying Examination (SQE), the single rigorous assessment for all aspiring solicitors. It was introduced to give assurance of consistent, high standards at the point of admission. Of the 8,818 individuals admitted in 2022/23, 17% came through the SQE route. This proportion will continue to grow in the years to come. The assessment consists of two parts: SQE1 which tests functioning legal knowledge and SQE2 which tests practical legal skills. Five examination sittings took place in 2022/23 across test centres in the UK and around the world. An independent review of the SQE found that, generally, the SQE had been delivered effectively.

## **Improving how we work**

- In January 2023, the Legal Services Board confirmed that we received the highest rating for four of the five standards it expects us to meet (well-led, regulatory approach, authorisation and supervision). For the fifth, enforcement, we received a 'partial' rating. We have taken a number of measures to improve our enforcement work through our continuous improvement programme.
- Our wide-ranging continuous improvement programme took place throughout 2022/23. This work – looking across internal processes, ways of working, communication, and skills development – is a culture change programme intended to deliver long-term and sustainable change. It is supporting our staff to achieve a greater standard of customer service, improved case analysis and more effective and timely case progression.
- Our balanced scorecard shows that we are generally meeting our service delivery targets. There are, however, some areas for improvement. This includes our commitment to further reduce the time it takes for us to conclude cases.

## **2. Promoting technology and innovation**

### **Supporting innovation and innovators**

- We were awarded our third grant from the Regulators' Pioneer Fund (RPF). The aim of the grants is to fund projects designed to drive forward innovation, remove regulatory red tape and establish the UK as world leader in technologies of the future. We will use this grant to look at ways of increasing the use of technology-enabled dispute resolution. This is with the overarching aim of helping individuals and businesses resolve legal issues without the need to go to court. We are running the project in a consortium including the Law Society and Access to Justice Foundation. The grant was awarded during 2022/23 and received in 2023/24.
- As part of our SRA Innovate programme, we supported 23 innovators (including law firms, start-ups, and more established tech providers) in 2023. We offered regulatory advice, help in navigating lawtech and signposted businesses to other regulators or organisations for support and information on investment.
- We started work on developing our approach to regulating the use of artificial intelligence (AI) in light of the rapid development of AI systems and the government's proposed regulatory framework. We have been actively involved in a range of government-led programmes.

### **Offering insights**

- We have shared practical tips and policy insights on innovation in the legal sector through a series of events and webinars, attracting around 1,600 participants. Our newsletter dedicated to news on legal technology and innovation, Lawtech Insight, has received just over 3,000 visits in the past year. We also exhibited and spoke at two Legal Geek conferences and LegalEx. These events attracted more than 6,500 legal and lawtech sector delegates, providing a wide range of opportunities to show firms how we can support them.





- Two dedicated Risk Outlook publications focused on the risks and opportunities of crypto technologies and the pros and cons of artificial intelligence. Both of these aimed to help firms better understand how they can harness and optimise modern technology.
- Research on unbundling legal services found that offering legal services in this way could make them more affordable for people who find them too expensive. It also found that law firms could also benefit, as it would increase their client base. As well as talking to firms as part of the research, we engaged with other legal regulators, technology innovators and professional indemnity insurers, and carried out a review of case law for negligence action arising out of unbundling.

### **Better information for consumers**

- We provided consumer-focused information about advocacy standards – what to expect before, during and after you appear in court. A one-month campaign promoting this content resulted in around 300,000 visits to our website.
- We continue to see increases in the number of visitors to our consumer-facing web pages. Our Solicitor's Register is particularly popular, attracting 6.5 million views this year.
- Legal Choices is the public-facing website and social media presence we manage on behalf of the legal regulators. Annual visits to the website exceeded 1.6 million.
- Independent research into the effectiveness of the SRA's Transparency Rules, which were introduced in November 2019, found that they were having a positive effect. The rules mean law firms must proactively publish certain information on price, services and complaints procedures. The research found that more than half of individuals and small to medium-sized businesses who had recently engaged with a legal services provider had compared price and service information before selecting a provider.

### **3. Anticipating and responding to change**

- We consulted on and finalised our Corporate Strategy for 2023–2026. We engaged with close to 17,000 people on our strategic objectives for the next three years: deliver high standards; strengthen our risk-based and proactive regulation; support innovation and technology; and be an authoritative and inclusive organisation, meeting the needs of the public, consumers, those we regulate and our staff.
- In addition to the two tech-themed Risk Outlook publications mentioned above, we published a Risk Outlook on managing regulatory risk during economic uncertainty. We also published thematic reviews on strategic lawsuits against public participation, and the work of in-house solicitors and the challenges they face. We issued guidance on the new wellbeing at work rules, to help law firms and those who work in them to understand what the new rules in this area mean for them.
- We carried out a significant amount of work in relation to immigration services providers. We carried out a thematic review and published guidance in November 2022. We also issued a warning notice in September 2023, reminding solicitors and firms of their regulatory duties.
- In summer 2023 after being approached by CILEX, we consulted on regulating the members of the Chartered Institute of Legal Executives (CILEX). We believe the change could simplify the regulatory landscape and offer tangible benefits to consumers. We will consider the responses to the consultation and take forward any changes in 2023/24.
- We have encouraged interaction and debate about big issues affecting the legal sector through a series of insight pieces in the national and legal trade press. Topics included innovation, our fining powers and anti-money laundering (AML). Webinars have also looked at issues such as the financial sanctions regime, AML, and numerous sessions on reaching the high standards we expect before entering the profession via the SQE.

### **Understanding and promoting diversity in the profession**

- We completed our latest firm diversity data collection in summer 2023 and achieved a response rate of nearly 100 per cent. For a better understanding of diversity among

the most senior people in law firms, for the first time we asked firms to report separately on full equity and salaried/partial-equity partners. [The findings of this exercise were published in December](https://www.sra.org.uk/sra/news/press/2023-firm-diversity-data-pay-gaps/) <https://www.sra.org.uk/sra/news/press/2023-firm-diversity-data-pay-gaps/> 2023.

- We published our fourth annual report on the diversity profile of individuals within our enforcement work. The findings were similar to earlier years, with overrepresentation for men and solicitors from a black, Asian and minority ethnic background in reports received and in those we take forward for investigation.
- We continue to develop two significant equality, diversity and inclusion research projects, with a view to publishing these in spring 2024. The first project looks at the differential outcomes in professional assessments for candidates from a black, Asian and minority ethnic background. The second considers the overrepresentation of black, Asian and minority ethnic solicitors in our enforcement work. [The literature reviews](https://www.sra.org.uk/sra/news/press/over-representation-in-complaints/) <https://www.sra.org.uk/sra/news/press/over-representation-in-complaints/> for each of these were published in summer 2023. We will use the findings to increase our understanding of, and inform our future work in, these areas.
- We refreshed our online information and resources concerning disability and LGBTQ+ inclusion within the profession. We also hosted a webinar on menopause and creating a supportive firm culture, which has been viewed almost 300 times.
- We celebrated our own LGBTQ+ inclusion achievements, coming 25th in the Stonewall Top 100 employers list. We also brought together firms and regulators to celebrate Pride in Birmingham, Cardiff and London.

## Financial review

On 1 October 2023 the SRA took over the day-to-day operations of the Solicitors Indemnity Fund (SIF) and therefore has prepared financial statements which consolidate the result of SIF activities for the month of September and the balance sheet at 31 October 2023. More information on the SIF is provided below. Prior to 1 October 2023 SIF was administered by Solicitors Indemnity Fund Limited (SIFL). SRA took responsibility for the closure of SIFL and this should be completed during 2024. SIFL continued to have some contractual obligations in relation to SIF activity and the costs charged to the Fund.

## Solicitors Indemnity Fund (SIF) consolidation

The SIF is a special purpose entity set up in 1987 to provide compulsory professional indemnity cover to all solicitors. In 1999 the Law Society decided to move to an open market professional indemnity insurance (PII) system and so SIF stopped receiving premiums and stopped providing primary PII cover to solicitors. However, using residual funds that had been collected from previous years, the Law Society decided that for a time limited period the SIF would continue to provide run-off cover to solicitors and firms who had been closed for more than six years (and were therefore beyond the period of mandatory run-off cover required under the new system).

Responsibility for indemnification arrangements was delegated to the SRA in 2006, at which point it took over responsibility for governance of the operation of the SIF from the Law Society. The Legal Services Board has approved a number of applications by the SRA to extend the SIF. During the prior year the SRA decided to extend the operation of the SIF for a further year following a consultation.

As part of this decision, we agreed to provide an unconditional undertaking to reimburse the SIF with the amount of any net solvency shortfall (i.e. any deficit) in its capital arising from the extension of SIF's liability for post six-year run off claims until 30 September 2023. On 1 October 2023 the SRA took over the management of SIF, to provide assurance of future consumer protection for post six-year negligence claims and achieve a reduction in the scheme's running costs compared to the previous arrangements, so that more money will be available for SIF's core purpose of settling claims. From this date the SIF has become a subsidiary of the SRA, with its financial statements consolidated in these now SRA group financial statements. The SRA's financial statements are separately visible in the company

income and expenditure statement, statement of comprehensive income and company balance sheet, and in the company only columns of the notes to the financial statements.

This financial review will focus on income and expenditure on the activities of the SRA Limited given the immaterial nature of SIF activities for the month of October. The balance sheet review will consider the SIF assets and liabilities.

The overall consolidated result for the year was a surplus of £21.8m (2022: £1.7m). The majority of the surplus (£20.6m) arose as a result of the consolidation of SIF. Excluding this, the surplus was £1.2m. From 1 October 2023 the SRA took responsibility for managing and administering SIF, a function previously undertaken by Solicitors Indemnity Fund Limited (SIFL). In doing so SRA effectively took control of SIF and the Board considers that SIF and SIFL became subsidiaries of SRA from this point. SRA, SIF and SIFL are therefore consolidated within these financial statements. The surplus within the group financial statements is predominantly a consequence of the inclusion of SIF's assets within the group balance sheet from 1 October 2023.

## **Income**

The majority of our funding comes from annual fees set each year. We charge these fees to individuals (primarily the 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 as solicitors in England and Wales.

These fees are invoiced from 1 October to cover the following November to October period. Therefore, the fee income recognised in the 2022/23 year was predominantly collected prior to the start of the financial year. The amount recognised in the financial year was £60.6m (2022: £58.1m). At the end of October 2023 there were 166,256 practising solicitors and 9,377 solicitor firms (October 2022: 160,676 and 9,636 respectively). These can range from sole practitioners to large firms that have a global presence and thousands of solicitors. There is a long-term trend of an increase in the number of practising solicitors and a gradual reduction in the number of firms.

Not all solicitors are currently practising law. There were over 200,000 solicitors on the roll at the end of October 2023.

For 2022/23 the individual practicing certificate fee was set at £286, an increase from £266 in 2021/22. Approximately half of the fees collected are retained by the SRA, with a proportion collected on behalf of the Law Society to fund elements of its work and levies payable to external bodies including the Legal Services Board and Legal Ombudsman. The Law Society share of practising fee income is reported within the consolidated accounts of the Law Society group. Around £151 (2022: £151) of the 2022/23 fee funded the work of the SRA.

Fees for firms vary and are related to the turnover of each firm. The 2023/24 fee collection window opened on 1 October 2023 and closed on 31 October 2023. At 31 October 2023 £64.5m (2022: £54.1m) of invoices had been raised and recognised as deferred income for the 2023/24 renewal year. By the end of January 2024 £67.0m of invoices had been raised (prior year: £59.6m).

Non-practising solicitors who wish to remain on the roll of solicitors pay an annual fee of £20. At the end of October 2023 there were 35,434 non-practising solicitors on the roll.

In addition to the practising fees a levy is collected on behalf of the Compensation 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 invoices raised and cash collected on behalf of the Compensation Fund. Information on the Compensation Fund is available in its financial statements.

## **Other income**



Income recognised from the Compensation Fund for costs associated with the management and administration of the Compensation Fund by the SRA totalled £22.4m in the financial year (2022: £7.2m). Additionally, we collected £3.6m in administration fees for other applications from individuals and firms (2022: £2.6m).

### **Education and training**

The main component within education and training income is the Solicitors Qualifying Examination, or SQE. This is the assessment for all aspiring solicitors in England and Wales. The SQE is provided by Kaplan SQE Ltd., working with, and on behalf of, the SRA. During the financial year we recognised £19.1m (2022: £8.4m) in income related to the assessment and direct costs of delivery of £18.8m (2022: £8.2m) in addition to our internal costs associated with delivering the exam. We expect the SQE income and expenditure figure to continue to increase over coming years as more candidates sit the examination. Any surplus arising is segregated, to be invested solely in education and training, and not other areas of the SRA's responsibilities.

In order to be an eligible body in respect of the supply of education, research or vocational training, specifically the delivery of the Solicitors Qualifying Examination, any surpluses that might arise from the supply of these services should be used solely for the continuation or improvement of such supplies. In addition to the direct costs of delivery of the examination, we also incur internal costs within our Education and Training teams. This is in support of SQE delivery as well as our other education and training activity. The overall cost of this activity is therefore greater than the income received and no surpluses on this activity have been realised to date. Were any surpluses to be realised in the future they would be ringfenced and not available for activity within the wider SRA.

### **Fair value of SIF net assets**

From 1 October 2023 the SRA took responsibility for managing and administering SIF. The fair value of SIF's net assets has been consolidated within the financial statements of the group. As a public benefit entity this is recognised directly within income. The fair value of the net assets at 1 October 2023 was £20.6m.

### **Expenditure**

Our total operating expenditure for the reporting period was £107.1m (2022: £75.2m) of which £39.9m (2022: £35.9m) was on staff related costs. The increase arose due to a combination of the increased costs of administering the Compensation Fund which as noted above were recovered from the Compensation Fund, and the increased SQE costs, which were recovered via SQE fees, also therefore leading to a related increase in income.

### **Fixed assets**

Tangible assets have reduced in value from £1.8m to £1.4m, due to the depreciation of our asset base, with a modest investment in computer equipment of £0.1m.

Group investments have increased by £27.3m following the inclusion of SIF investments from 1 October 2023. The value of SIF investments on 1 October 2023 was £27.8m.

The company's investments value is unchanged from the prior year at £8.6m. Our investment holdings represent long term reserves and are not required to fund our day-to-day operations. They are invested with Cazenove, with the objective of achieving a long-term return on investment.

SIF's investment strategy is to hold a varied and diversified portfolio to maximise returns at a level of risk agreed by the Directors. SIF holds an investment portfolio consisting of equities, sovereign and investment grade bonds as well as other securities and cash. This provides SIF with a constant income from investment. There remains volatility in the underlying value of the funds within the SIF portfolio, which is accounted for as either an

unrecognised loss or gain in the Statement of Comprehensive Income. Further details are provided in Note 10.

## **Debtors**

Year-end trade debtors are at their highest following the annual practising fee renewals exercise, undertaken during October, and reduce rapidly in November each year.

## **Cash**

Cash balances are also at their highest level following the annual practising fee renewals exercise in October 2023. The cash balance at the end of the year is therefore higher than at most times during the year. Cashflows continue to be positive in November and then gradually reduce through the remainder of the financial year with a relatively smooth flow of annual expenditure until the next renewal period. Under our investment policy we aim for our cash balances to be actively managed to maximise returns as much as possible while limiting the risk to funds. The average cash balance held during the year was £51.7m (2022: £44m).

## **Provisions**

The company provision for disciplinary proceedings and litigation costs at 31 October 2023 was £14.2m (2022: £1.9m). 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 are recharged in full to the Compensation Fund.

During the year two large interventions were undertaken, Metamorph in November 2022 and Axiom Ince in October 2023. The full cost of carrying out an intervention is provided for once reliable estimates of the cost can be obtained. These interventions have resulted in significantly increased provisions at the end of the year.

The consolidated balance sheet includes a total SIF claims provision of £7.9m. This provision is for current and future claims against SIF and the cost of dealing with those claims. The largest proportion of the provision is for claims incurred but not reported. These are claims not yet received against SIF but expected to be received in the future in relation to events that have already occurred. This is estimated using external actuarial advice, based on all available information at that time including historic trends and recent developments and amounts to £3.8 million. Further information is provided in note 2 r) and note 3 of the financial statements. The remainder of the provision includes £2.2m for claims reserves and £1.9m for claims handling costs.

## **Reserves**

### **Group reserves**

The group balance sheet reports net assets of £37.8m, up from £16.6m in 2022 following the inclusion of SIF on the group balance sheet. The company balance sheet shows net assets of £17.8m (2022: £16.6m), of which £16.5m (2022: £14.8m) is unrestricted reserves once tangible fixed assets are excluded.

The reserve requirements of SIF are very different in nature to those of the company and need to be considered separately. There was no established reserves policy when the SRA took direct management responsibility for it. In determining the going concern position at the end of the financial year the Directors reflected on the level of reserves in SIF and the expected cash outflows and considered that the level of reserves was appropriate. SIF had net assets of £20m at the balance sheet date, and a surplus of £0.4m in the 2022/23 year and a deficit of £2.8m in the 2021/22 year. A more formal reserves policy will be established during the 2023/24 financial year.

The reserves of SRA can only be used to fund the operations of SRA and the reserves of SIF can only be used to fund the operations of SIF, they are not transferable between SRA and

SIF. Additionally, in order to be considered an eligible body for the delivery of education activities, any surpluses in the future arising from these activities can be used only for the continuation of such activity.

### **Company Reserves**

Our reserves policy for the company outlines a requirement to hold between £17.7m and £25m of unrestricted reserves after tangible 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, with consideration of:

- potential reductions in income,
- additional liabilities that may arise or commitments that may be made,
- the risk of unexpected expenditure in relation to legal costs,
- planned increases in expenditure.

The reserves range represents between approximately three and five months' expenditure for the financial year when the policy was agreed, and excludes income and expenditure arising on the SQE. This is appropriate because the SQE is an almost entirely cost-neutral activity for the SRA. The SQE income and expenditure is expected to grow significantly in future years.

The reserves position is considered by the Board each year and was last reviewed and agreed by the Board in January 2024. 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, as part of the annual approval of practising fees by the LSB. The fees for 2024/25 will be consulted on in the summer of 2024. As mentioned above unrestricted reserves (excluding fixed assets) stand at £16.5m. We expect these to be within the targeted reserves policy over the next two years.

### **Financial key performance indicators**

The directors consider that the key financial performance indicators are as follows:

- Consolidated income for the year was £127.8m (2022: £76.6m)
- Consolidated operating surplus for the year was £20.6m (2022: £1.4m)
- Company unrestricted reserves at 31 October 2023 were £16.5m (2022: £14.8m)

### **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. A mid-tier risk register brings together more significant or organisation-wide risks which are not at the strategic level, and both the strategic and mid-tier registers are underpinned by operational risk registers across the organisation.

To support the transparency of a structured risk reporting cycle, the strategic risk register is presented to our Audit and Risk Committee and Board three times a year. The Audit and Risk Committee also reviews the mid-tier risk register. Management of both these registers sits with the Executive Directors Team which monitors them regularly.

We continued to enhance risk governance and management systems during this period. This has included deep dives on strategic risks by our Audit and Risk Committee, a wider internal quarterly review of strategic and mid-tier risks and dedicated training and awareness sessions.

We have been ever mindful of the increasing cyber security risk, as faced by most other organisations. We are certified to the ISO:27001 standard in information security and apply all of the controls contained within.

We continue to invest in our technical resources and capabilities to deal with existing and emerging risks as effectively as we can. This includes testing and scenario planning to prepare for incidents.

In 2023, we carried out the annual review of the strategic risk register. The risk register had been significantly reworked to reflect the Board's discussions on risks emerging in the light of the development of the new corporate strategy for 2023-26.

Having undertaken a review, we simplified our approach to risk appetite and tolerance, and adopted a new approach to prioritising actions based on the weighting of risk scores, allowing the organisation to better focus on the key risks.

The principal risks relate to delivery of crucial areas of work like investigation and enforcement and our approach to emerging technology, equality, diversity and inclusion and risk based regulation.

The principal risks from the SIF indemnity operations arise from fluctuations in the timing, frequency and severity of claims compared to expectation and inadequate reserving. In addition, SIF is exposed to financial risks arising from the fluctuation in the returns on the investments it holds.

Reserve estimates for SIF claims are made by specialist claims experts and panel solicitor firms of the likely damages and potential costs involved in settling claims, as well as any expected indemnity recoveries to be made. These reserves are revised on a regular basis based on updated information as the claims progress.

Actuarial reviews are carried out on a triennial basis or when deemed necessary. Directors assess movements to determine an appropriate reserve in the intervening periods.

Should costs exceed the expected returns on investments in the long term, a levy would be raised from solicitor firms to ensure the long term stability of SIF.

The SIF investment strategy is within the SRA Board's risk appetite as identified by the corporate risk register and the SRA has retained the services of an independent investment manager under specific mandates to administer SIF's investments. At present, SIF has invested in a diversified, and appropriately liquid, investment portfolio. The investments are held within two investment funds - one broadly representing the surplus capital and invested with a longer-term view and the balance broadly representing the potential known liabilities. Both are fully managed by its investment managers and held independently via a custodian.

The investment manager produces periodic investment reports to explain movements in the investment mix and performance against benchmark indices. These reports are considered regularly and contact is maintained throughout the year with the investment manager. Meetings take place quarterly to discuss the performance and appropriateness of the investment portfolios given the Directors' risk appetite.

Overall, 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.

### **Non-financial and sustainability information statement**

The SRA's key environmental disclosures are included within the Directors' report.

### **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 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 between members of the company.

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

## **Key decisions**

A number of important decisions were made during the financial year.

The Board in December 2022 agreed to make the SRA Authorisation of Individuals (Keeping of the Roll) (Amendment) Regulations to allow for keeping of the roll changes to be implemented. This ensures that we hold an up to date and accurate record of solicitors on the roll. This provides clarity for the profession and the wider public as to who is on the roll. The exercise had not been undertaken since 2014 resulting in a risk that information was out of date.

The Board decided, following a public consultation, in January 2023 to make two changes to the indemnity fund rules. Firstly, to provide that where an arbitrator is required in relation to any dispute about whether a claim is within the scope of SIF we will invite an appropriate independent body to appoint the arbitrator. Secondly, to provide that in the event of the scheme closing, and where we do not identify an alternative indemnification purpose for the residual funds, they will be transferred to the Law Society so it can determine how they will be used for the benefit of the profession. The Board on this basis agreed to with effect from 1 October 2023, designate the SRA as the person responsible for holding, managing and administering the SIF pursuant to rule 4.5 of the SRA Indemnity Rules 2012 and to make the SRA Indemnity Fund (Amendment) Rules 2023.

The Board also agreed in January 2023 to adopt new principles for our approach to publishing regulatory decisions aligned to the Better Regulation Principles of the Legal Services Act 2007, and to approve the implementation of a new enhanced fixed financial penalty regime. This brings benefits to the profession and the public as it improves the quality of information that we publish in our regulatory decisions. This helps to raise awareness in the profession of appropriate conduct and the consequences of failure to comply as well as enhancing public trust in the regulatory system.

The Remuneration Committee was established in April 2023 following a Board effectiveness review, as a result of which the Nomination role was split out from the existing Remuneration/Nomination Committee.

In July 2023 the Board decided to increase the SRA component of the individual solicitor practicing certificate by £11 to £162 and to keep the individual solicitor contributions to the Compensation Fund the same as the prior year, and to reduce the firm contribution from £690 to £660. This followed a public consultation and was then approved by the Legal Services Board in August 2023.

The Board approved a new corporate strategy for the period 2023 to 2026.



In September 2023 the Board decided to appoint a third-party claims handler, Polo Commercial Insurance Services Limited, a known and trusted provider of claims management services to the SRA, to support the delivery of managing claims made to the SIF.

## People

Our people are fundamental to the successful performance of the organisation. Employees are regularly kept updated through monthly organisation wide business updates which provide an opportunity to feedback on key business activity and upcoming changes. The staff forum and staff trade 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 and clear action plans are developed and delivered based on the feedback. In this reporting year we supplemented the annual staff survey with a small number of pulse surveys providing a deeper dive into particular issues to give greater insight. The structure of annual pay awards is agreed with the trade union each year allowing its members 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 our staff networks help 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, mental health and disability, and men's health and wellbeing. We also have mental health first aiders.

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. We refreshed our values as part of preparing and launching our new corporate strategy for 2023-26 and retained our commitment to inclusion within our fourth priority to be an authoritative and inclusive organisation, meeting the needs of the public, consumers, those we regulate and our staff.

Our training and other initiatives to promote career development are made available to all staff, and we track a range of employment areas throughout the employment lifecycle to make sure these opportunities are being accessed fairly by all groups.

We monitor the diversity of our staff, covering all the diversity characteristics we collect from the profession and publish an annual breakdown of the data. This includes questions about socio-economic diversity and caring responsibilities. We publish our gender pay gap data as we are required to do, and this year chose to publish our ethnicity pay gap, which indicates our median pay gap between black, Asian and ethnic minority and white staff reduced from 13 per cent in 2022 to 8 per cent in 2023. While this is heading in the right direction, we need to make more progress to reduce this. We have an underrepresentation of black, Asian and ethnic minority staff at senior levels in our workforce. We have published targets to double the number of people within our senior team from these backgrounds from 8 to 16 per cent within five years and 20 per cent by 2032.

We have an action plan that includes:

- a staff survey to understand the barriers to career development
- exploring specific career development programmes for underrepresented groups including mentoring and development activities to assist internal promotion
- exploring secondment and apprenticeship opportunities
- bringing diversity alive through learning such as promotion via storytellers and showcasing our leaders with an ethnic minority background

- sourcing a diverse panel of people –comprising both internal and external people - for our leadership recruitment process, to safeguard diversity related concerns
- seeking 15 per cent ethnic minority candidates at all gateways in the recruitment process where there is sufficient volume, applied to application, shortlisting and interviewing
- reviewing and challenging the criteria required to apply for our roles, ensuring that 'essential' requirements are really essential, for example such as a degree qualification versus relevant experience
- pressing our preferred suppliers in recruitment to work much harder to provide a diverse range of candidates. We will also re-tender to test whether there are others who can do more in this area.

We are a disability confident level 2 employer which enables us to make the most of the opportunities provided by employing disabled people. Our activities over this reporting year to promote LGBTQ+ inclusion resulted in us being awarded a gold employer's award from Stonewall.

#### **Work with other regulators**

We work 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. We recently became an associate member of the UK Regulators Network (UKRN).

#### **Regulated population and other stakeholders**

Our business plan and budget for 2023/24 were approved during the reporting period. Both were consulted on widely. 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 2023 before a decision was made on the final budget and business plan for 2023/24.

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 18 July 2023 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. During the reporting period we consulted on a number of issues.

We asked for feedback from legal professionals on proposed minor amendments to the SRA Standards and Regulations introduced in 2019. We consulted on proposals to update the solicitor apprenticeship standard. We sought views on draft rules to protect consumers from excessive charges when they are represented by solicitors in claims relating to financial products and services. We consulted on our draft business plan and budget for 2023-24, as well as our wider corporate strategy for 2023 to 2026. We sought views on proposed changes to our regulatory arrangements to enable us to regulate CILEX members in the event that CILEX decides to proceed with redelegation.

All current and previous consultations are available on our website.

## 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.

## Supplier relationships

In order to successfully manage the 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. During the financial year this included a successful day for supplier representatives at our main office, to ensure a deeper understanding of SRA policies and expectations.

Modern slavery encompasses the offences of slavery, servitude, forced and compulsory labour and human trafficking. As the regulator of solicitors and law firms in England and Wales, we have an important role in supporting the rule of law and the administration of justice, and so we fully support the Government's commitment to tackling this issue. Given the nature of our work, our main risk is our supply chain. We have in place robust procurement processes to manage this risk. We expect any supplier we work with to have suitable policies, processes, and compliance in place within their own organisation to prevent child labour, modern slavery and human trafficking. We will continue to develop this in the future, ensuring staff are aware of these risks and can easily raise any concerns.

The Board of Directors consider, both individually and collectively, that they have acted in a way they consider, in good faith, would be the 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 2023.

This Strategic Report was approved by order of the Board on 14 May 2024

Anna Bradley

Chair

23 May 2024

## [Directors' report](#)

The directors present their report and the audited financial statements of the company for the period 1 November 2022 to 31 October 2023.

## Directors

The directors during the reporting period were as follows:

	<b>Attended Meetings</b>	
Anna Bradley (Chair)	9	9
Ann E Harrison	8	9
Paul B Loft	9	9
Lisa Mayhew	9	9
Vikas S Shah	8	9
Elizabeth H Smart	9	9
Selina Ullah	7	9
Nicola Williams	9	9

Claire Bassett	From 1 January 2023	6	8
Rob McWilliam	From 1 March 2023	6	6

The SRA maintained liability insurance for its Directors and Officers throughout the financial year.

## The Board

We had a Board of 8 directors until 31 December 2022, 9 until 28 February 2023 and 10 for the remainder of this reporting period.

Two members of the Board, Liz Smart and Vikas Shah, were reappointed for a further three years until the end of 2026. Paul Loft was reappointed for one further year until the end of 2024.

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.

All appointments to the Board including the appointment of the Chair are 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 are made by the Board on advice from an appointment panel for which members are selected by the Nomination Committee each time a recruitment round is held. Decisions on reappointment of directors are made by the Board, taking advice from the Nominations Committee, guided by objective annual appraisals and the desirability of ensuring a balance between regular turnover and continuity. Appointments to the post of Chair (including the selection criteria and make-up of the appointment panel) will be made by the Board, advised by the appointment panel which will be established by the Board on the advice of the Nomination Committee.

Board member remuneration was £12,500 per annum. Chairs of committees receive an additional £5,000 pa, as does the senior independent director. The Board Chair remuneration was £90,000 pa.

The Chair is contracted for a minimum commitment of two days per week and Board members for 20 days a year.

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

## Board meetings

The Board held 9 formal meetings during 2022/23. These included three meetings in person, in London, Leeds, and Newcastle (the Board also held a workshop meeting in Birmingham) and others held virtually. Board papers and minutes are published on the SRA website.

The Board has continued to hold regular workshop sessions which 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 regular strategy discussions.

## 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 makes decisions, our meeting papers and what we can publish, what we cannot, and why,
- 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.

## 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 three committees: Audit and Risk Committee, Remuneration Committee and Nomination 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 Remuneration Committee advises the Board on policies relating to the remuneration of non-executive Board Members, committee members, the Executive Team and the wider workforce.

The Nomination Committee oversees and advises the Board on matters relating to the appointment, reappointment and removal of non-executive directors and the Chief Executive and the effectiveness of the Board.

The Board delegates the day-to-day operational management of the company to the senior management team which was comprised of:

- Paul Philip Chief Executive Officer
- Aileen Armstrong Executive Director - Strategy, Innovation and External Affairs (from 19 June 2023)
- Juliet Oliver General Counsel and Executive Director Investigations and Enforcement
- Liz Rosser Executive Director - Operations and Resources
- Jane Malcolm Executive Director - External and Corporate Affairs (until 30 June 2023)
- Robert Loughlin Executive Director - Operations and Performance (until 30 June 2023)

## Nomination Committee Annual Report

### Background

The Nomination Committee was established in April 2023 following a Board Effectiveness Review, as a result of which the Nomination role was split out from the existing Remuneration/Nomination Committee. The Committee's role is to oversee and advise the Board on matters relating to the appointment, reappointment and removal of non-executive directors and the Chief Executive and the effectiveness of the Board.

The Committee's terms of reference are included in the [Governance Handbook](https://jobs.sra.org.uk/globalassets/documents/sra/sra-governance-handbook.pdf?version=4ab6c5) [https://jobs.sra.org.uk/globalassets/documents/sra/sra-governance-handbook.pdf?version=4ab6c5]. The Committee Chair provides reports to the Board at Board meetings following each Committee meeting.

### Membership

The members of Nomination Committee from April 2023 to October 2023 were:

- Anna Bradley (Board Chair)
- Ann Harrison (Chair of Remuneration Committee and senior independent director)
- Paul Loft (Chair of Audit and Risk Committee)



## Meetings

The Committee met three times in 2022-23 on: 28 March 2023 (as a combined Remuneration / Nomination Committee), 11 July 2023 and 3 October 2023. The key issues considered at these meetings were: the reappointment of Board members; retendering for a panel of executive search firms for the purpose of recruitment of our most senior roles; and recruitment of a new Board Chair.

The Committee has confirmed to the Board that it has carried out its responsibilities to date in line with its terms of reference.

## Remuneration Committee Annual Report

### Background

The Remuneration Committee was established in April 2023 following a Board Effectiveness Review, as a result of which the Nomination role was split out from the existing Remuneration/Nomination Committee. The Remuneration Committee's role is to advise the Board on policies relating to the remuneration of non-executive Board Members, the Executive Team and the wider workforce. The Committee's terms of reference are included in the [Governance Handbook](https://jobs.sra.org.uk/globalassets/documents/sra/sra-governance-handbook.pdf?version=4ab6c5) [https://jobs.sra.org.uk/globalassets/documents/sra/sra-governance-handbook.pdf?version=4ab6c5]. The Committee Chair provides reports to the Board at Board meetings following each Committee meeting.

### Membership

The members of Remuneration/Nominations and then Remuneration Committee for the period November 2022 to October 2023 were:

- Selina Ullah (Chair of Remuneration/Nomination Committee until 28 February 2023)
- Ann Harrison (Chair of Remuneration/Nomination Committee and then Remuneration Committee from 1 March 2023)
- Liz Smart
- Nicola Williams
- Anna Bradley

### Meetings

The Committee met three times in 2022-23 on 28 March 2023 (as Remco/Nomco), 11 July 2023, and 24 October 2023. The key issues considered at these meetings were: proposals for implementation of a number of the suggestions from the Board effectiveness review report; remuneration of the Board Chair and non-executive directors; gathering feedback on Executive performance and Executive pay awards for 2022-23.

The Committee has confirmed to the Board that it has carried out its responsibilities to date in line with its terms of reference.

## Audit and Risk Committee Annual Report

### Background

The Audit and Risk Committee was established in 2020 and was preceded by the Finance and Resources Committee. The Committee's terms of reference are included in the [Governance Handbook](https://jobs.sra.org.uk/globalassets/documents/sra/sra-governance-handbook.pdf?version=4ab6c5) [https://jobs.sra.org.uk/globalassets/documents/sra/sra-governance-handbook.pdf?version=4ab6c5]. The Committee Chair reports to the Board at Board meetings following each Committee meeting.

### Membership

The members of Audit and Risk Committee for November 2022 to October 2023 were as follows:

- Paul Loft (Chair)
- Ann Harrison (until February 2023)
- Vikas Shah
- Claire Bassett (from March 2023)
- Rob McWilliam (from March 2023)

## **Meetings**

During this period, the Committee met four times, 24 November 2022, 2 March 2023, 23 May 2023 and 7 September 2023. The Committee also met on 28 November 2023 and the items covered at this meeting are included in this report given they relate to the previous financial year. The Committee also had an extra meeting on 2 February 2023 to consider the draft accounts for Solicitors Regulation Authority Limited.

The key issues considered by the Committee at these meetings were: management of risk; internal controls and internal audit, including the internal control environment; and external audit and financial reporting.

The Committee has also had best practise sessions with our internal auditors, RSM, on: Environment, Social and Governance (ESG) - overview and governance; cyber risk and security; and ESG - environment and social. The Committee has confirmed to the Board that it has carried out its responsibilities in line with its terms of reference.

## **Statement of corporate governance arrangements**

While we are not required to 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.

## **Engagement with employees**

As referenced within the Section 172 statement in the strategic report, the staff forum and trade 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 for example 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, and we do the same. We expect our staff to consider equality, diversity and inclusion 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 employees to ensure disabled employees are treated equally. We also offer a 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. During the year we made some enhancements to our Birmingham premises for the benefit of wheelchair users. We have a specific staff network to support staff with disability and mental health issues.

## **Supplier payments**

It is our policy to ensure all suppliers are aware of our payment terms of 30 days from date of invoice once goods or services have been delivered, in entering into contractual relationships with us. It is our policy to make payments in line with this policy. We do not always manage to achieve this due to administrative issues in some cases and we are working to improve our payment of suppliers. We have no business or working capital need

to delay payments to suppliers and no suppliers have complained to us over the timing of our payments to them. We estimate that on average we took less than 30 days to pay our suppliers during the financial year as measured from the date of receipt of invoice.

### Environmental report

We appointed Carbon Footprint Ltd, a leading carbon and energy management company, to independently assess our greenhouse gas (GHG) emissions in accordance with the UK Government's 'Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance'.

The GHG emissions have been assessed following the GHG Protocol and ISO 14064-1:2018 standard using 2023 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 reporting approach for assessing scope 2 emissions from electricity usage. The financial control approach has been used.

The table below summarises the GHG emissions for the financial year. During 2021/22 we refurbished our Birmingham office space and as part of this reduced the floorspace we occupied by 40% from the end of March 2022. Consequently, energy use has reduced in 2022/23.

Scope	Emission Source	2021/22 tCO <sub>2</sub> e	2022/23 tCO <sub>2</sub> e
1	Natural Gas	-	2.47
		-	<b>2.47</b>
2	Electricity	88.97	58.93
		<b>88.97</b>	<b>58.93</b>
	Grey Fleet (employee-owned vehicles)	40.56	48.68
3.6	Hirecars	-	1.15
		<b>40.56</b>	<b>49.83</b>
	Total tCO <sub>2</sub> e	129.53	111.22
All	Total tCO <sub>2</sub> e per employee (FTE)	0.21	0.14
	Total tCO <sub>2</sub> e per £m Turnover	1.69	1.31
SECR	Total energy consumption (kWh)*	<b>549,767</b>	<b>530,818</b>

Streamlined energy and carbon reporting (SERC) mandatory elements only (scope 1, scope 2, scope 3 grey fleet & hire cars).

The table below presents the year on year comparison. This shows that we have achieved a material reduction in carbon emissions through the reduction in office space.

Activity	2021/22	2022/23	% Change
Total energy consumed (kWh)	549,767	530,818	-3.40%
Total Gross Location-based Emissions – SECR elements only (tCO <sub>2</sub> e)	129.53	111.22	-14.10%
Intensity ratio: tCO <sub>2</sub> e (gross SECR mandatory elements only, location-based) per £m income	1.69	1.31	-22.50%
Intensity ratio: tCO <sub>2</sub> e (gross SECR mandatory elements only, location-based) per employee	0.21	0.14	-33.30%

### 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.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## **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 14 May 2024

Anna Bradley

Chair

23 May 2024

## **[Independent auditors' report to the members of solicitors regulation authority limited](#)**

### **Opinion on the financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 October 2023 and of the Group's surplus and the Parent Company's surplus for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Solicitors Regulation Authority Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 October 2023 which comprise Consolidated Income and Expenditure Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Company Income and Expenditure Statement, Company Statement of Comprehensive Income, Company Balance Sheet, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies/material accounting information. 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 Group and the Parent 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 Group or Parent 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.

## **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Strategic Report and Directors' 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 year 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 Group and the Parent 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

## **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 Group's and the Parent 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 Group or the Parent 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:

## **Non-compliance with laws and regulations**

Based on:

- Our understanding of the Company/Group and the industry in which it operates;
- Discussion with management and those charged with governance;

- Obtaining and understanding of the Company's/Group's policies and procedures regarding compliance with laws and regulations; and

we considered the significant laws and regulations to be Companies Act 2006, FRS 102 the applicable accounting framework and UK tax legislation.

The Company/Group 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 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:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of any relevant correspondence with tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit.

## **Fraud**

We assessed the susceptibility of the 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 Company's/Group'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 meeting 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 financial statements;
- 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 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 a 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 to SRA Compensation Fund and the valuation and assumptions used in the calculation of significant provisions which included the interventions, disciplinary proceedings and litigation provision and claims provision; and

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 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> [<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 Parent 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 Parent 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 Parent Company and the Parent 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, UK

29 May 2024

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

## Consolidated income and expenditure statement

		<b>Note</b>	<b>2023 £'000</b>	<b>2022 £'000</b>
Income	4	127,752	76,619	
Operating expenses		(107,109)	(75,211)	
Operating surplus for the year	5	20,643	1,408	
Interest and dividends receivable	7	1,430	290	
Surplus before taxation		22,073	1,698	
Tax on surplus	8	(323)	(32)	
Surplus for the financial year		21,750	1,666	

All operations are continuing.

The notes on pages 45 to 70 form part of these financial statements.

## Consolidated statement of comprehensive income

		<b>Note</b>	<b>2023 £'000</b>	<b>2022 £'000</b>
Surplus for the financial year		21,750	1,666	
Unrealised losses on investments	10	(546)	(571)	
Tax on other comprehensive income	8	-	72	
Total comprehensive income		21,204	1,167	

The notes on pages 45 to 70 form part of these financial statements.

## Consolidated balance sheet

		<b>Note</b>	<b>2023 £'000</b>	<b>2022 £'000</b>
<b>Fixed assets</b>				
Tangible assets	9	1,367	1,849	
Investments	10	34,517	8,640	
		<b>35,884</b>	<b>10,489</b>	

**Current assets**

Debtors	11	44,618	35,803
Investments		1,403	-
Cash		90,605	75,705
		<b>136,626</b>	<b>111,508</b>
Creditors: amounts falling due within one year	12	(111,915)	(102,694)
<b>Net current assets</b>		<b>23,308</b>	<b>8,814</b>
Total assets less current liabilities		<b>60,595</b>	<b>19,303</b>
Creditors: amounts falling due after one year	13	(90)	(143)
Provision for other liabilities	14	(22,690)	(2,549)
<b>Net assets</b>		<b>37,815</b>	<b>16,611</b>
Capital and reserves			
Capital contribution		13,337	13,337
Accumulated funds		24,478	3,274
<b>Total</b>	<b>23</b>	<b>37,815</b>	<b>16,611</b>

Approved and authorised for issue by the Board of Directors on 14 May 2024 and signed on its behalf by:

Anna Bradley

Chair

Solicitor Regulation Authority Limited

Registered no. 12608059

The notes on pages 45 to 70 form part of these financial statements.

### Consolidated statement of changes in equity

	Note	Capital Contribution £'000	Retained earnings £'000	Total equity £'000
Balance as at 31 October 2021		13,337	2,107	15,444
Total comprehensive income for the period	-		1,167	1,167
Balance as at 31 October 2022	23	13,337	3,274	16,611
	Note	Capital Contribution £'000	Retained earnings £'000	Total equity £'000
Balance as at 31 October 2022		13,337	3,274	16,611
Total comprehensive income for the period	-		21,204	21,204
Balance as at 31 October 2023	23	13,337	24,478	37,815

The notes on pages 45 to 70 form part of these financial statements.

### Company income and expenditure statement

	Note	2023 £'000	2022 £'000
Income	4	107,114	76,619
Operating expenses		(106,835)	(75,211)
Operating surplus for the financial year	5	279	1,408

Interest and dividends receivable	7	1,404	290
Surplus before taxation		1,683	1,698
Tax on surplus	8	(323)	(32)
Surplus for the financial year		1,360	1,666

All operations are continuing.

The notes on pages 45 to 70 form part of these financial statements.

### Company statement of comprehensive income

		<b>Note 2023</b>	<b>£'000</b>	<b>2022</b>	<b>£'000</b>
Surplus for the financial year		1,360		1,666	
Unrealised losses on investments	10	(117)		(571)	
Tax on other comprehensive income	8	-		72	
Total comprehensive income		1,243		1,167	

The notes on pages 45 to 70 form part of these financial statements.

### Company balance sheet

		<b>Note 2023</b>	<b>£'000</b>	<b>2022</b>	<b>£'000</b>
<b>Fixed assets</b>					
Tangible fixed assets	9	1,367		1,849	
Investments	10	8,608		8,640	
		<b>9,975</b>		<b>10,489</b>	
<b>Current assets</b>					
Debtors	11	43,928		35,803	
Cash		90,275		75,705	
		<b>134,203</b>		<b>111,508</b>	
Creditors: amounts falling due within one year	12	(111,417)		(102,694)	
<b>Net current assets</b>		<b>22,786</b>		<b>8,814</b>	
Total assets less current liabilities		<b>32,761</b>		<b>19,303</b>	
Creditors: amounts falling due after one year	13	(90)		(143)	
Provision for other liabilities	14	(14,817)		(2,549)	
<b>Net assets</b>		<b>17,854</b>		<b>16,611</b>	
Capital and reserves					
Capital contribution		13,337		13,337	
Accumulated funds		4,517		3,274	
<b>Total</b>		<b>17,854</b>		<b>16,611</b>	

Approved and authorised for issue by the Board of Directors on 14 May 2024 and signed on its behalf by:

Anna Bradley

Chair

Solicitor Regulation Authority Limited

Registered no. 12608059

The notes on pages 45 to 70 form part of these financial statements.

### Company statement of changes in equity



	<b>Capital Contribution £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
Balance as at 31 October 2021	13,337	2,107	15,444
Total comprehensive income for the period	-	1,167	1,167
Balance as at 31 October 2022	13,337	3,274	16,611
	<b>Capital Contribution £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
Balance as at 31 October 2022	13,337	3,274	16,611
Total comprehensive income for the period	-	1,243	1,243
Balance as at 31 October 2023	13,337	4,517	17,854

The notes on pages 45 to 70 form part of these financial statements.

### **Consolidated statement of cash flows**

	<b>Note</b>	<b>2023 £'000</b>	<b>2022 £'000</b>
Net cash from operating activities	16	13,173	42,046
Taxation expense		(4)	-
Net cash generated from operating activities		13,169	42,046
<b>Cash flow from investing activities</b>			
SIF cash on acquisition	22	528	-
Interest and dividends		1,339	172
Purchase of fixed assets		-	(1,657)
Net cash generated from / (used in) investing activities		1,867	-1,485
<b>Cash flow from financing activities</b>			
Finance lease payments		(136)	(95)
Net cash used in financing activities	18	(136)	(95)
Net increase in cash and cash equivalents		14,900	40,466
Cash and cash equivalents at the beginning of		75,705	35,239
Cash and cash equivalents at the end of the year		90,605	75,705
Cash and cash equivalents consist of:			
Cash at bank and in hand	17	90,605	75,705

The notes on pages 45 to 70 form part of these financial statements.

### **Notes to the consolidated financial statements**

#### **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. Solicitors Regulation Authority Limited is a public benefit entity and these consolidated financial statements are those of a public benefit entity group. As the regulator of Solicitors and law firms in England and Wales the SRA's purpose is to protect the public.

#### **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 Group 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 group'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.

The Board of the SRA has concluded that the SRA is a public benefit entity as defined in FRS102. This conclusion was reached after considering the regulatory objectives as outlined in section 1 of the Legal Services Act 2007.

### **b) Going Concern**

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

The Executive and the Board continue to closely monitor all aspects of the Group's activities and financial performance. Sensitivity analysis relating to potential reductions in practising fee income 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 consolidated 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 Group's ability to continue as a going concern. The Board, therefore, considers it appropriate for the consolidated accounts to be prepared on a going concern basis.

The reserves of the group include the reserves of the SRA and the SIF. The reserves of SRA can only be used for the activity of the SRA and the reserves of SIF can only be used for the activity of SIF. Reserves cannot be used to cross subsidise either entity. The Board has taken this into consideration when assessing the basis on which the group financial statements are prepared. The going concern status of SRA and SIF are therefore considered separately taking into account the specific circumstances that affect this in each case, including expected expenditure and the certainty around that, and the availability and certainty of income in each case.

### **c) Basis of consolidation**

Consolidated financial statements have been prepared which comprise the results of Solicitors Regulation Authority Limited (SRA) and its subsidiaries, Solicitors Indemnity Fund Limited (SIFL) and the Solicitors Indemnity Fund (SIF) from 1 October 2023. One month of activity from 1 October to 31 October 2023 is included in the consolidated accounts.

SIFL has been consolidated as a subsidiary of SRA. Since 1 October 2023, SRA controls SIFL and is able to appoint the directors of the Company. In line with FRS102 9.4 and 9.5 the Board considers SIFL to be within the control of and a subsidiary of SRA.

Individual financial statements are also produced for SIFL.

SIF has been consolidated as a subsidiary entity of SRA, in line with section 9 of FRS 102. Since 1 October 2023 SRA took responsibility for the management and administration of SIF. SIF is also governed by the SRA Indemnity Rules and it is these rules that give SRA the power to manage and administer the Fund. This includes the power to govern the financial and operating policies of SIF through its day to day management and through the Indemnity Rules. In line with FRS102 9.4 and 9.5 the Board considers SIFL to be within the control of and a subsidiary of SRA.

Individual financial statements are also produced for SIF.

FRS 102 34.77 has been applied in respect of public benefit entity combinations. The impact of that is that the excess of the fair value of SIF assets received over the fair value of the liabilities assumed is recognised as a gain in income and expenditure. This gain represents the gift of the value of one entity to another and is recognised as income.

#### **d) Special purpose entity (SIF)**

SIF is considered a special purpose entity and in line with section 9.10 and 9.11 of FRS 102. SIF is consolidated within these financial statements. The operations, financing and use of SIF are distinctly separate from SRA with legal frameworks in place that require that separation to be maintained, however the SRA has control over the day to day operations and also the rules that govern the use of SIF.

The Fund was created by the Law Society in 1987 for the purposes set out in s37 of the Solicitors Act 1974 (to provide compulsory professional indemnity cover to all solicitors).

SIF therefore has a specific legal purpose which was initially to provide indemnity in respect of the practices of solicitors, recognised bodies and registered foreign lawyers carried on wholly or in part in England and Wales. This continued until 31 August 2000 when this function was replaced by the requirement for law firms to purchase indemnity insurance in the open market. From 1 September 2007 the fund began to provide cover for claims and the associated liabilities arising from firms insured in the open market which have ceased without successor subsequent to 1 September 2000 and where the requisite six-year run-off period has elapsed. SIF continues to perform this function and continues to operate for this purpose.

There is a strict separation between the assets and liabilities of SIF and those of the SRA. The funds of SIF can only be used for the activity of SIF and are not available to fund the wider activity of the SRA. It also has separate funding from the SRA as the income of SRA cannot be used to fund the activity of SIF. Were SIF to require additional funding this would require a separate levy to be collected for this purpose. In the event that either the SRA or SIF were to become insolvent the income of one could not be used to fund any shortfall in the other.

Some of the assets and liabilities of SIF are held in the name of SRA and SIFL for the benefit of SIF. This includes the investments of SIF which are held by the SRA but in the name of SIF, and the bank balances which are held by SIFL (although will be transferred to SRA as part of finalising the transfer of SIF from SIFL to SRA). These assets are held on behalf of SIF and, as no economic benefit can flow to SRA and SIFL due to the legal restrictions on the fund, are not considered to be assets of SRA or SIFL. In addition, liabilities resulting from SIF activities are in the name of SRA or SIFL, but settled from SIF's cash balances. As such, whilst the technical obligation may fall on SRA or SIFL on SIF's behalf, no outflow of economic benefit occurs from these entities. This arrangement is analogous to an agency arrangement in practice. As a result, the assets and liabilities relating to SIF's legal purpose are included within the balance sheet of SIF and not within the balance sheet of either SIFL or the SRA. This is consistent with how SIF and SIFL's financial statements have been prepared in previous years.

As and when the SRA no longer considers it necessary or appropriate that the Fund is required for providing indemnity in any way the Fund would be released to the Law Society for the overall benefit of the solicitors' profession. Further detail on the treatment of SIF's assets and liabilities is included within note 10.

#### **e) Non-consolidated entities**

- In the opinion of the Board the SRA Compensation Fund 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 results of the SRA Compensation 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 Compensation Fund is considered to be held on 'Trust' purely for the specific purpose for which the Compensation Fund is created and the SRA does not have the right to access any of the Compensation Fund's assets for its own purposes and would not be liable to meet any liabilities created by the Compensation Fund if it were unable to meet them. As the SRA does not have control or significant influence and does not derive anything other than inconsequential indirect benefit, the financial results, assets and liabilities of the Compensation Fund are not included in the financial statements of the SRA. The financial statements of the Compensation Fund are available on the SRA website.

#### **f) Ultimate parent undertaking**

The company is 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.

#### **g) Foreign currency**

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

#### **h) Income recognition policies**

##### **i. Practising fees collected to fund operating activities**

Income 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 with the period to which it relates. Practising fees collected by the SRA are only used to fund permitted activities under section 51 of the Legal Services Act 2007.

##### **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 income 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 income 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. Income in relation to Periods of Recognised Training is apportioned over the period to which the training is undertaken which is two years.

##### **iv. Income from the SRA Compensation Fund**

The SRA manages and administers the activity of the Compensation Fund on behalf of the Compensation Fund. The cost of this activity is recovered from the Compensation Fund. This income is recognised when actually calculated and notified to the Compensation Fund by the SRA on a monthly basis. The costs to be charged to the Compensation Fund are agreed by the 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 Compensation Fund.

##### **v. Investment income**

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

vi. Interest from indemnity claim recoveries

Interest from indemnity claim recoveries is recognised when it can be reliably measured and there is a reasonable expectation of recovery.

vii. Contributions to SIF

Contributions are accounted for on the accruals basis.

### **i) 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 a 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.

### **j) SIF claims costs**

Claims costs recognised each year comprise claims handling costs including the costs of panel solicitors, damages paid out, and other costs net of indemnity recoveries. Claims costs are accounted for when incurred and indemnity recoveries are recognised at the point they can be reliably measured and there is a reasonable expectation of recovery.

### **k) Taxation**

Taxation expense comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income and expenditure statement, except to the extent that it relates to items recognised in other comprehensive income. In this case tax is recognised in the statement of comprehensive income.

### **l) 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

Short 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. The cost of repairs and maintenance is 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 Statement of Comprehensive Income.

### **m) 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 Statement of Comprehensive Income 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.

#### **n) Valuation of investments**

Fixed asset and current asset investments comprise of managed investment funds and listed securities. Realised gains or losses represent the difference between net sale proceeds and purchase price. 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.

Investments intended to be held on a continuing basis and for long term growth are recognised as fixed asset investments. Investments that may be required to fund ongoing activities within the next 12 months are recognised as current asset investments.

#### **o) SIF indemnity recoveries provisions**

Indemnity recoveries are recognised at the point at which they can be measured and there is a reasonable expectation of recovery. In practise this means when SIF is notified of entitlement to amounts. Assessment is made of the likelihood of recovery and subsequent provision made if required. No provision is made for other potential future indemnity recoveries due to the uncertainty of whether any amounts can be recovered.

#### **p) Interest from indemnity claim recoveries**

Interest from indemnity claim recoveries is recognised when it can be reliably measured and there is a reasonable expectation of recovery.

#### **q) 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.

Investments that may be required to fund ongoing activities within the next 12 months are recognised as current asset investments.

#### **r) Provisions and contingencies**

##### **i. Provisions (note 14)**

Provisions are recognised where there is 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.



We recognise 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.
- Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable surpluses. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.
- Claims provisions - estimation techniques are used to determine the gross claims provision which represents the estimated outstanding liabilities relating to all indemnity years. Ultimate claim settlements are estimated by the use of statistical projections of historical data, together with case by case reviews of notified losses, and are based on information available at the time the estimates are made. There is uncertainty as to the quantum of the ultimate settlement of the liabilities. This is inherent in the process of estimating such that, in the normal course of events, unforeseen or unexpected future developments could cause the ultimate cost of settling the outstanding liabilities to differ from the estimate. Any differences between provisions and subsequent settlements are dealt with in later accounting periods as actual costs and non- insurance recoveries are known. Claims provisions include the estimated future costs of panel solicitors and claims handling costs, including a proportion of overheads. Claims provisions are included at a discounted rate representing the present value of the amount expected to be required to settle the obligation.

#### ii. Contingencies

Contingent liabilities are not recognised but are disclosed. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or 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 assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

### **s) 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.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

## 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. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost.

## t) Related party transactions

Transactions with directors and key management are disclosed in note 6. Transactions with the Compensation Fund, the Law Society and any other related parties are disclosed in note 24.

## u) Reserves

Reserves of the company comprise a capital contribution from the Law Society upon the transfer of activities from the Law Society to Solicitors Regulation Authority Limited in 2021 and accumulated surpluses made within SRA. Practising fees collected by the SRA and consequently any resulting 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.

The reserves of the Group related to the activity of SIF can only be used for activity related to SIF and cannot be used to fund the activity of SRA.

## v) Fixed asset investment in subsidiaries

Fixed asset investments in subsidiaries are accounted for at cost less any impairment.

## 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:

### i. Consolidation of the Solicitors Indemnity Fund and treatment as a special purpose entity

On 1 October 2023 the SRA took responsibility for the management and administration of the Solicitors Indemnity Fund (SIF). SIF has been included within these consolidated financial statements (see note 2 c and 2 d)

SIF is treated as a special purpose entity with the assets and liabilities held on its behalf by SRA and SIFL not being recognised on the balance sheet of those entities' financial statements. Further information is provided in note 2d and note 10.

### ii. 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

company does not make provision for other potential future recoveries due to the uncertainty of whether any amounts can be recovered.

### iii. 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.

We recognise 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 SRA 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. The costs represent the full cost of dilapidations at the end of the lease term. The estimate is based on previous works undertaken and settlements previously agreed.
- The ultimate liability arising from SIF claims -this provision consists of three components: case reserves, claims incurred but not reported (IBNR) and a claims handling costs provision.

Case reserves are estimated on a case by case basis by claims handlers and, where deemed necessary and appropriate, further opinions are sought from third party solicitors. Indemnity claim recoveries reduce the cost of claims and are only recognised where there is a reasonable expectation of recovery. This is in practical terms when SIF is notified of entitlement to amounts and so subject to a lesser degree of uncertainty than case reserves.

External actuaries estimate IBNR using standard actuarial claims projection techniques on a triennial basis or when deemed appropriate. The most recent projection was prepared in 2023 for the 2023 financial year end. Such methods extrapolate the development of paid and incurred claims, indemnity recoveries from third parties, average cost per claim and expected loss ratios. The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than what was assumed, the surplus or deficit will be credited or charged through the Statement of Comprehensive Income in future years.

Direct claims handling costs are recognised to the extent they can be separately identified as specifically relating to claims handling expected to be incurred due to known claims and IBNR cases.

## 4. Analysis of Income

	<b>Group 2023</b>	<b>Group 2022</b>	<b>Company 2023</b>	<b>Company 2022</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Practising fee income	60,604	58,077	60,604	58,077
Compensation Fund income	23,701	7,229	23,701	7,229
Education and training income	19,221	8,541	19,221	8,541
Other income	3,588	2,641	3,588	2,641
Grants	-	131	-	131
Fair value of SIF net assets	20,638	-	-	-

Total Income	127,752	76,619	107,114	76,619
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## 5. Operating surplus

Operating surplus is stated after charging:

	<b>Group 2023 £000</b>	<b>Group 2022 £000</b>	<b>Company 2023 £000</b>	<b>Company 2022 £000</b>
Impairment of trade receivables	1444	995	1444	995
Operating lease costs	919	974	919	974
Depreciation	594	573	594	573
Audit fees payable to the company's external auditors	189	164	179	164

## 6. Employees and directors

### Employees (Group and company)

The average monthly number of full-time equivalent persons (including executive directors) employed by the Group and company during the reporting period was 766 (2022: 708).

### Directors

The directors' emoluments were as follows:

	<b>2023 £'000</b>	<b>2022 £'000</b>
Aggregate remuneration	208	206

### Highest paid director

The highest paid director's emoluments were as follows:

	<b>2023 £'000</b>	<b>2022 £'000</b>
Total amount of emoluments	90	90

The directors received no other financial benefits or remuneration.

### Key management remuneration

Key management includes the directors and members of senior management. There were six members of the senior management team during the year. The remuneration paid to the senior management team in the reporting period is shown below:

	<b>2023 £'000</b>	<b>2022 £'000</b>
Salaries and other short-term benefits	1244	1442
Pension contributions	84	88
	1328	1530

### Staff costs (Group and company)

	<b>2023 £'000</b>	<b>2022 £'000</b>
Wages and salaries	33,486	30,098
Social security costs	3,487	3,259

Other pension costs	2,908	2,570
Staff costs	39,881	35,927

## 7. Interest and dividends receivable

Interest and dividends are received within the managed investments and on cash and cash equivalent deposits.

	<b>Group 2023</b>	<b>Group 2022</b>	<b>Company 2023</b>	<b>Company 2022</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Interest - fixed asset	17	39	12	39
Dividends - fixed asset	74	79	74	79
Interest - cash and cash equivalents	1,339	172	1,318	172
Interest and dividends	1,430	290	1,404	290

## 8. Taxation

The activities of the group 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.

### Group

	<b>2023 £'000</b>	<b>2022 £'000</b>
UK Corporation tax at prevailing rate	323	32
Total current tax charge	323	32
Origination and reversal of timing differences -	-	(72)
Total deferred tax (credit)	-	(72)
Total tax charge / (credit)	323	(40)

### Reconciliation of tax charge

	<b>2023 £'000</b>	<b>2022 £'000</b>
Surplus before taxation	22,073	1,698
Tax at prevailing rate	4,971	323
Amendments to tax	-	-
Expenses not deductible for tax purposes	24,128	14,267
Income not taxable for tax purposes	(28,774)	(14,558)
Chargeable (losses)/gains	-	(55)
Remeasurement of deferred tax for changes in tax rates	-	(17)
Exempt distributions and adjustments in respect of prior periods (2)	-	-
Tax charge / (credit) for the period	<b>323</b>	<b>(40)</b>

### Company

	<b>2023 £'000</b>	<b>2022 £'000</b>
UK Corporation tax at prevailing rate	323	32
Total current tax charge	323	32
Origination and reversal of timing differences -	-	(72)
Total deferred tax (credit)	-	(72)
Total tax charge / (credit)	323	(40)

### Reconciliation of tax charge

	<b>2023 £'000</b>	<b>2022 £'000</b>
Surplus before taxation	1,683	1,698
Tax at prevailing rate	379	323
Amendments to tax		
Expenses not deductible for tax purposes	24,066	14,267
Income not taxable for tax purposes	(24,120)	(14,558)
Chargeable (losses)/gains	-	(55)
Remeasurement of deferred tax for changes in tax rates	(2)	-
Exempt distributions and adjustments in respect of prior periods	323	(40)
Tax charge / (credit) for the period	<b>323</b>	(40)

## 9. Tangible assets (Group and company)

	<b>Short leasehold property £'000</b>	<b>Furniture and equipment £'000</b>	<b>Computers and hardware £'000</b>	<b>Total</b>
At 31 October 2022	520	626	703	1,849
Additions	-	-	112	112
Depreciation	(61)	(157)	(376)	(594)
Closing net book amount	459	469	439	1,367
At 31 October 2023	785	748	7,131	2,843
Cost				
Accumulated depreciation and impairment	(326)	(279)	(871)	(1,476)
Net book amount	459	469	439	1,367

The net book value of assets held on finance lease is £245k (2022: £270k).

## 10. Fixed asset investments

### Group

	<b>2023 £'000</b>	<b>2022 £'000</b>
At 1 November 2022 / 1 November 2021	8,640	9,316
Investments on acquisition of subsidiary	26,403	-
Interest and dividends received	91	118
Management fees	(82)	(41)
Gain / (Loss) on disposal	11	(182)
Unrealised loss on investments	(546)	(571)
At 31 October 2023	<b>34,517</b>	<b>8,640</b>

Group investments are approximately 45% invested in listed equities, 30% in bonds, 20% in alternatives and 5% in cash assets.

### Company

	<b>2023 £'000</b>	<b>2022 £'000</b>
At 1 November 2022 / 1 November 2021	8,640	9,316
Interest and dividends received	86	118
Management fees	(40)	(41)
Gain / (Loss) on disposal	39	(182)
Unrealised loss on investments	(117)	(571)



At 31 October 2023

8,608

8,640

Company investments are approximately 50% invested in listed equities, 25% in bonds, 15% in alternatives and 10% in cash assets.

### Investment in subsidiary and special purpose entity

<b>Name of the undertaking</b>	Solicitors Indemnity Fund Limited	Solicitors Indemnity Fund
<b>Type of undertaking</b>	Company limited by guarantee (Company number 02143641)	Special purpose entity
<b>Address of the registered office</b>	The Cube, 199 Wharfside Street, Birmingham, England, B1 1RN	N/a
<b>Principal place of business</b>	England and Wales	England and Wales
<b>Included in consolidation</b>	Yes	Yes

### SIFL

On 1 October 2023 the SRA took control of Solicitors Indemnity Fund Limited (SIFL). Since 1 October 2023, SRA controls SIFL and is able to appoint the directors of the Company. In line with FRS102 9.4 and 9.5 the Board considers SIFL to be within the control of and a subsidiary of SRA.

Within the financial statements of SIFL there are no assets and liabilities. SIFL held title to some assets which were beneficially held for SIF and these are recorded within the financial statements of SIF. No value is recognised in the balance sheet as an investment in SIFL.

### SIF

On 1 October 2023 the SRA took over management of the Solicitors Indemnity Fund (SIF) and the results of SIF are consolidated in the group from this point. As there was no consideration paid for the assets of SIF, there is no value recognised in the balance sheet as an investment in SIF. SIF is a subsidiary of the SRA. SIF has been consolidated as a subsidiary entity of SRA. In line with section 9 of FRS 102, SRA is determined to have control over SIF as it is responsible for managing and administering SIF as well as having the power to govern the operating policies of the entity.

The assets and liabilities of SIF are detailed in the table below in line with their legal form. While some of these assets and liabilities are held by SRA and SIFL, all are considered to be beneficially held for SIF and therefore recorded in the financial statements of SIF and not in SRA or SIFL.

### SIF balance sheet SRA £'000 SIFL £'000 SIF £'000 Total £'000

#### Assets

Investments	27,313	-	-	27,313
Debtors	18	80	591	689
Cash	-	329	-	329
<b>Total assets</b>	<b>27,331</b>	<b>409</b>	<b>591</b>	<b>28,331</b>
<b>Liabilities</b>				
Claims provisions	-	-	(7,873)	(7,873)
Creditors	(150)	(137)	(209)	(496)
<b>Total liabilities</b>	<b>(150)</b>	<b>(137)</b>	<b>(8,082)</b>	<b>(8,369)</b>
<b>Net assets</b>	<b>27,181</b>	<b>272</b>	<b>(7,491)</b>	<b>19,962</b>

## 11. Debtors

	<b>Group 2023 £'000</b>	<b>Group 2022 £'000</b>	<b>Company 2023 £'000</b>	<b>Company 2022 £'000</b>
Trade debtors	30,633	29,241	30,633	29,241
Other debtors	1,058	348	368	348
Prepayments	2,979	1,488	2,979	1,488
Amounts due from the SRA Compensation Fund	5,267	-	5,267	-
Accrued income	4,681	4,726	4,681	4,726
	<b>44,618</b>	<b>35,803</b>	<b>43,928</b>	<b>35,803</b>

Trade debtors includes £1m (2022: £930k) of debtors on payment plans which fall due in more than one year. Trade debtors are stated after provisions for impairment of £1.4m (2022: £995k).

## 12. Creditors: amounts falling due within one year

	<b>Group 2023 £'000</b>	<b>Group 2022 £'000</b>	<b>Company 2023 £'000</b>	<b>Company £'000</b>
Trade creditors	1,772	1,868	1,772	1,868
Amounts due to Law Society	31,930	27,174	31,930	2,7174
Amounts due to the SRA Compensation Fund	-	7,978	-	7,978
Corporation Tax	323	36	323	36
Taxation and social security	1,141	1,133	1,004	1,133
Finance leases	155	126	155	126
Other creditors	1,270	1,308	1,270	1,308
Practising fee deferred income	64,509	54,097	64,09	54,097
Accruals and deferred income	10,815	8,974	10,454	8,974
	<b>111,915</b>	<b>102,694</b>	<b>111,417</b>	<b>102,694</b>

### Creditors: amounts falling due after more than one year (Group and company)

	<b>2023 £'000</b>	<b>2022 £'000</b>
Finance leases 90	143	
90	143	

The finance leases relate to laptop computers. Remaining lease terms vary from 14 months to 23 months. At the end of the leases the company has no option to purchase.

## 13. Loans and other borrowing (Group and company)

### Finance leases

The future minimum finance lease payments are as follows:

	<b>2023 £'000</b>	<b>2022 £'000</b>
Not later than one year	155	126
Later than one year and not more than five years 90	143	
Total gross payments	245	269
Less: finance charge	-	-
Carrying amount of liability	245	269

## 14. Provision for other liabilities

## Group

	2022 £'000	New provisions £'000	On acquisition of subsidiary £'000	Utilised / released £'000	2023 £'000
Interventions, disciplinary proceedings and litigation	1,897	21,004	-	(8,748)	14,153
Dilapidations	652	12	-	-	664
Claims provision	-	-	7,900	(27)	7,873
	2,549	21,016	7,900	(8,775)	22,690

## Company

	2022 £'000	New provisions £'000	Utilised / realised £'000	2023 £'000
Interventions, disciplinary	1,897	21,004	(8,748)	14,153
Dilapidations	652	12	-	664
	2,549	21,016	(8,748)	14,817

## Claims Provision

Gross claims reserve provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore cost of damages changing. The settlement of reserves is dependent on the specific circumstances of the individual claim and can vary significantly case by case.

Incurred but not reported (IBNR) provisions represent an estimate of cases where the event that triggers a claim has already happened i.e. an act of negligence has occurred at some time in the past but is presently unknown to SIF because it has not been reported. When disclosed to SIF it would still be subject to any statutory limitation provisions applying. An actuarial projection is made of this provision periodically. The risk exposure of all IBNR claims reduces over time as cases reach their primary or statutory limitation period.

Claims handling costs are recognised to the extent they can be separately identified as specifically relating to claims handling expected to be incurred due to known claims and IBNR cases. The provision for direct claims handling costs comprises those relating to gross claims reserves, and to IBNR.

## Interventions, disciplinary proceedings and litigation

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.

## Dilapidations

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. This provision is expected to be utilised at the end of the lease, which is expected to be no earlier than March 2027.

## 15. Financial instruments

The carrying value of the group and company's financial assets and liabilities measured at fair value through profit and loss are summarised by category below.

	<b>Group 2023 £'000</b>	<b>Group 2022 £'000</b>	<b>Company 2023 £'000</b>	<b>Company 2022 £'000</b>
Fixed asset investments	34,517	8,640	8,608	8,640
Current asset investments	1,403	-	-	-
	35,920	8,640	8,608	8,640

The group and company's income, expense, gains and losses in respect of financial instruments are summarised below.

	<b>Group 2023 £'000</b>	<b>Group 2022 £'000</b>	<b>Company 2023 £'000</b>	<b>Company 2022 £'000</b>
Interest: Fixed asset investments	17	39	12	39
Dividends: Fixed asset	74	79	74	79
	91	118	86	118

## 16. Notes to the consolidated statement of cash flows

	<b>2023 £'000</b>	<b>2022 £'000</b>
Surplus for the financial year	21,750	1,666
Net interest and dividends	(1,430)	(290)
(Gain) / loss on investments	(11)	182
Fees on managed investments	82	41
Depreciation of fixed assets	594	573
Fair value of SIF net assets	(206,38)	-
Increase / (Decrease) in provisions	12,241	(1,014)
Working capital movements		
Increase in debtors	(8,115)	(16,245)
Increase in creditors	8,700	57,133
Cash flow from operating activities	13,173	42,046

## 17. Analysis of changes in net debt

	<b>1 November 2022 £'000</b>	<b>Cashflow £'000</b>	<b>Other non- cash changes £'000</b>	<b>31 October 2023 £'000</b>
Cash and cash equivalents	75,705	14,900	-	90,605
Finance leases	(269)	136	(112)	(245)
	75,436	15,036	(112)	90,360

## 18. Non-cash transactions

The SRA has acquired tangible assets under finance leases. £112k 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 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 assets and liabilities

There are a number of assets over which the SRA has some title or claim which may lead to potential future recoveries. These potential assets are not recognised as part of the 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 (Group and company)

At 31 October 2023 the company and group had no capital commitments. At 31 October 2023 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2023 £'000	2022 £'000
Not later than one year	1,038	1,036
Later than one year and not more than five years	3,292	4,330
Later than five years	5,417	5,416
	9,747	10,782

The company had no other off-balance sheet arrangements.

## 22. Fair value of SIF net assets

On 1 October 2023 the SRA acquired control of the Solicitors Indemnity Fund (SIF). There was no consideration paid resulting in a gain on acquisition of £20.6m. The fair value of the net assets of SIF were assessed as follows.

	1 October 2023 £'000
<b>Fixed assets</b>	
Investments	26,403
	<b>26,403</b>
<b>Current assets</b>	
Debtors	700
Investments	1,403
Cash	528
	<b>2,631</b>
Creditors: amounts falling due within one year (496)	
<b>Net current assets</b>	2,135
Total assets less current liabilities	<b>28,538</b>
Provision for claims	(7,900)
<b>Fair value of SIF net assets</b>	<b>20,638</b>

## 23. Composition of total equity

The total equity of the group as at 31 October 2023 was £37,801k. This is made up as shown in the table below.

	£'000
<b>At 31 October 2022</b>	<b>16,611</b>
Fair value of SIF net assets	20,638
Surplus for the financial year	566
<b>At 31 October 2023</b>	<b>37,815</b>
SRA	17,854

SIF	19,961
<b>Total</b>	<b>37,815</b>

The reserves of SRA can only be used to fund the operations of SRA and the reserves of SIF can only be used to fund the operations of SIF, they are not transferable between SRA and SIF.

## 24. Related Party Transactions

The Law Society, SIF, SIFL and the Compensation Fund are related parties of Solicitors Regulation Authority Limited. Related party transactions with the Compensation Fund in the year totalled £23.7m (2022: £7.2m) which represented income received in respect of administration of the Compensation Fund. Additionally, the SRA collects contributions on behalf of the Compensation Fund annually.

Transactions with the Law Society are practising fee income collected on behalf of the Law Society and payments in respect of some shared services and contractual arrangements. These transactions totalled £58.6m and £0.5m respectively in the financial year (2022: £54.6m and £1.4m respectively).

There were no transactions with SIF in the financial year.

Note 6 provides for disclosure of the directors' remuneration and key management remuneration. Solicitor members of the Board (or their employers on their behalf) are required to pay an annual practising certificate fee, which is charged on the same basis as other practising solicitors. During the year these members (or firms of solicitors in which they may hold a position of influence) may be required to pay fees for regulatory services. These fees are charged on the same basis as other regulated individuals or firms. Due to the nature of the SRA's activities, such transactions with individuals and firms have not been disclosed.

## 25. Controlling parties

The ultimate controlling party is the Law Society. The Law Society is a body incorporated by Royal Charter. The consolidated financial statements of the Law Society group are available on the Law Society website ([lawsociety.org.uk](https://lawsociety.org.uk)). The Law Society's address is The Law Society's Hall, 113 Chancery Lane, London, WC2A 1PL.

## 26. Post balance sheet events

There are no significant post balance sheet events requiring adjustment or disclosure.