

New Accounts Rules

The new Solicitors Accounts Rules came into force on the 1st May 2000, if not adopted previously. In our view, the new provisions, which are most likely to affect your operation of Sovereign LAW on a day-to-day basis, are:

- Requirement for clients money to be paid into a client account 'without delay' - defined as 'in normal circumstances, either on the day of receipt or on the next working day'.
- Limited application of the rules to certain liquidators / receivers / trustees (rule 9), joint accounts (rule 10) and clients' own accounts (rule 11).
- Controlled trust money to be treated substantially in the same way as client money (rules 8 & 15)
- Relaxation of the rule on unpaid professional disbursements to allow them to be placed temporarily in an office account (rule 19(1)(b))
- Requirement to transfer billed costs out of client account within 14 days (rule 19(3))
- £20 de minimis figure for the payment of interest, as well as the interest table (rule 24)

These relate primarily to your procedures, rather than the software, but we have made some minor changes to Sovereign LAW to facilitate compliance. Points arising are discussed in more detail on the following pages.

Requirement for clients money to be paid into a client account 'without delay' - defined as 'in normal circumstances, either on the day of receipt or on the next working day'.

The implication of this is that you need to

- (a) Have office procedures to ensure that fee-earners do not 'sit on' receipts, but pass them to you immediately. If fee-earners are not in the office, procedures are needed to ensure someone else looks at the post and forwards receipts on to you.
- (b) Bank at least every other working day, so you should be doing run ends at least that regularly as well. Sovereign LAW is designed to be operated in 'real time' and our recommendation is that all postings are done as and when the transactions arise, with bankings being done daily and run ends performed to coincide with the bankings. No changes to Sovereign LAW have been necessary to cover this.

Limited application of the rules to certain liquidators / receivers / trustees (rule 9), joint accounts (rule 10) and clients' own accounts (rule 11).

Controlled trust money to be treated substantially in the same way as client money (rules 8 & 15)

These two provisions mean it is likely that more designated accounts will need to be set up, so that there is a record of such money within the accounting system. By way of reminder, Sovereign LAW already handles these as 'Bank' (where funds are transferred to and from your main client account by bank transfer) and 'Other' (where funds are transferred by cheque) designated accounts. Each designated account (as it is a separate client account) has its own account in the nominal ledger. The software still describes the accounts as Designated Deposit or DD accounts, but they can be used for current accounts as well.

These accounts can now be set up from within the posting program. If a suffix is entered for an account, which does not exist in the nominal ledger, a Create New option is presented. This runs a program, which lists any existing designated accounts for the file, and gives the option to create a new Bank or Other account. Only the suffix and the account name (for the nominal ledger) has to be entered - the rest is done automatically. Alternatively, they can be set up in advance of actual posting via General Posting - File Details - DD Accounts.

Note the default balance sheet category code for these nominal ledger accounts is set to 100 but can be reset via Module Parameters - Tables of Nominal Accounts - DD A/c Category.

It might be desirable to identify files where the money held is not straightforward client money. The Money Treatment Flag can be used to identify e.g. Controlled Trust files by setting the flag to T. This is done via General Posting - File Details - Parameters.

A new Parameters Based Balances report is available, which includes the money treatment flag as one of the parameters, so it is possible to list all such balances for files with a money treatment flag of e.g. T. This report is accessed via Reports - File Based Reports - Parameter Based - Balances. The other parameters allow you to report on office or client balances above a specified figure.

Relaxation of the rule on unpaid professional disbursements to allow them to be placed temporarily in an office account (rule 19(1)(b))

The boxes which appear when a credit into office account is being posted have been changed to allow for the possibility that the credit may now include unpaid professional disbursements. You will always be asked whether the credit includes unpaid professional disbursements (eg. this is likely if Office is in credit or the Paid Disbs balance is negative). If the answer is Yes, you will be asked to confirm that they can be dealt with within the specified time scale (i.e. by the end of the second working day after receipt). If you are unsure, then it is advisable to pay the receipt into Office but then transfer back into Client account.

Requirement to transfer billed costs out of client account within 14 days (rule 19(3))

The effect of this is that funds 'earmarked' for costs cannot be left sitting in client account, but need to be transferred within 14 days. This provision, with the previous one, means that greater vigilance will be required as to compliance.

We have made the F/E2 Compliance Scan report (via Reports - File Based Reports - Files in F/E2 Order - Compliance Scan) more rigorous in that it provides an Exception column at the right hand side of the page, which may contain the following:

- 'Office in Credit' - this always needs investigation, as it indicates a potential breach of the rules
- 'Poss Hidden Disb' - this highlights the situation where there is a part paid bill, which includes disbursements, on a file with unallocated billed disbursements. This means that a part payment may have been left in office, when it should have been used to pay disbursement(s)
- 'Poss Transfer' - there is money in client a/c in conjunction with an office balance
- 'Poss Tfr re Bill / Disb / NYP' - this means there is money in client account and no office balance, but the file is showing an outstanding bills / paid disbursement / NYP disbursement figure
- 'Poss Earmarked' - there has been a client balance for 7 days or more, which might be money retained for costs
- 'Poss Client Intt' - the last client transaction date and client balance exceeds the figures in the deposit interest table in rule 24.

In the posting program, once a file has been selected, there is now also a Scan option, which runs a similar program, displaying any Exceptions for the file on screen, rather than in a report.

We recommend running the above report weekly. We envisage the need to carry out compliance checks of this nature will prove a disincentive to retaining money in general client account. If balances are going to be retained for a while, they can be transferred either to a designated account, or to the No.2 Account.

£20 de minimis figure for the payment of interest, as well as the interest table (rule 24)

The deposit interest program can already have a 'disregard' figure set, which is equivalent to the de minimis figure, and no change to the program has been made. The rules do now make it clear that a sum in lieu of interest is not required to be paid if the calculated amount is less than £20. Note that, contrary to popular belief, your 'reporting accountant' (i.e. auditor) is not required to check your payment to clients of interest arising on general client account!