# 4 SRA Compliance Tips for Law Firms

Written by Teresa Matich

Most solicitors don't have a second career as an accountant, but they still need to comply with SRA Accounts Rules. The rules are simple enough to find online, but with the day-to-day pressures of running a legal practice, it's easier than one might think to hit a snag.

John Gilmartin, CEO of leading legal accounting software Klyant, sees four principal issues that law firms need to keep in mind when it comes to accounting. Read his tips below, and your firm will be that much more prepared in the event of an audit.

## 1. Keep an accurate record of all client account transactions

SRA Accounts Rule 29.2 states that "All dealings with client money must be appropriately recorded." Keeping an accurate record of all transactions on one's client account might seem straightforward enough, but without a clear picture of where client funds are moving, it can be easy to miss inconsistencies.

If you work for a small firm, or if you're a sole practitioner, there are a few options for keeping records of transactions on client accounts. Keeping records manually with a spreadsheet or other document is one option, but this method leaves plenty of room for error.

Accounting software can help, but be mindful that not all systems are built to handle records of client funds properly—with some tools, you may need to employ workarounds, such as recording client money as a liability, in order to keep an accurate record of your client accounts. Accounting software built specifically for law firms, like Klyant, is designed to make keeping track of client and office money easy, with no workarounds required.

## 2. Have a mechanism in place to keep client transactions in check

At some law firms, funds from multiple clients are kept in one client account, called a general client account. If there's no system to keep transactions in check, law firms can risk overdrawing—essentially, taking funds from one client to cover another client's costs.

Consider this: If Aaron's client Maxine has £10,000 in client funds, and Aaron withdraws £11,000 to cover his latest invoice, he's taking £1,000 from another client's funds to cover the difference. SRA Accounts Rule 20.6 states, "Money withdrawn in relation to a particular client or trust from a general client account must not exceed the money held on behalf of that client or trust in all your general client accounts."

"If a client has X amount in his or her client account, obviously you can't transfer any more money than is actually there," John explained. "The whole purpose of an accounting system is to know how much of that sum of money belongs to a specific client or matter."

Many accounting systems will help you keep track of separate client funds, but with human error, it may be easier than you think to make a mistake and accidentally withdraw more funds for a single client than are available. Klyant can be helpful here: It goes above and beyond in keeping track of individual client funds by notifying you if you try to overdraw the client account in error and by providing you with a complete suite of reports that show a breakdown of all client account transactional activity.

## 3. When a case closes, return remaining client funds in a timely manner

Per SRA Accounts Rules, solicitors must return any client funds remaining in a client account shortly after a matter is closed. Rule 14.3 states "Client money must be returned to the client (or other person on whose behalf the money is held) promptly, as soon as there is no longer any proper reason to retain those funds."

If, for any reason, you do continue to hold client funds after a matter has closed, Rule 14.4 states:

> "You must promptly inform a client (or other person on whose behalf the money is held) in writing of the amount of any client money retained at the end of a matter (or the substantial conclusion of a matter), and the reason for that retention. You must inform the client (or other person) in writing at least once every twelve months thereafter of the amount of client money still held and the reason for the retention, for as long as you continue to hold that money."

"At any point in time, to be prepared for an SRA audit, you need to know how much money you're holding in your client accounts and for which clients, especially if their matters have been closed," John explains.

In other words, it's important to make sure that you quickly return client funds to clients once matters have closed. If you won't be returning some of the funds, set a reminder to ensure you're staying compliant by writing to your former client every 12 months with the reason for the retention.

You can set reminders with most calendar systems, including iCal, Google Calendar, and Outlook. A practice management system like Clio will let you set up tasks and reminders for the return of client funds, so that you'll never forget to send funds back.

Bonus: Clio integrates directly with Klyant, so you can easily keep track of all your client account information in one place.

## 4. Have a system to handle disbursements

Finally, John says it's absolutely key to handle office disbursements properly. "If you've used firm money to purchase something on behalf of the client, and then you want to take money from the client account to replace the money you spent out of your own business account, that needs to be properly dealt with and documented," John explained.

Transferring money between your client and office accounts can be tricky, so you'll need a system that helps you keep track of everything. Using a spreadsheet is one way to do it, as is using a traditional accounting system. However, as mentioned above, systems that are not set up to help lawyers handle client and office accounting may mean employing workarounds.

Using a bespoke legal accounting system like Klyant, which has built-in mechanisms for handling expenses and disbursements for law firms, is likely the simplest way to keep your records straight so that you're ready for the auditor.

Of course, there's a lot more to SRA Accounts Rules than what's covered here. However, if you follow these four tips, you'll have covered the basics when it comes to compliance.

With Kylant and Clio working together, you've got the best possible tools in your corner to help with SRA compliance. Learn more about Klyant and Clio.

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