



THE LAW SOCIETY
OF NEW SOUTH WALES

EXTERNAL EXAMINER'S REPORT 2019

UPDATE FOR EXTERNAL EXAMINERS

The legislation

1. The operative legislation for the year ending 31 March 2019 is the Legal Profession Uniform Law (NSW) 2014 and Legal Profession Uniform General Rules 2015 which commenced on 1 July 2015. The Legal Profession Uniform Law Application Act 2014 (NSW) and Legal Profession Uniform Law Application Regulation 2015 (NSW) is also applicable in regard to the requirement to maintain a statutory deposit and the calculation of the amount to be held on deposit.
2. The due date for completed reports to be submitted online is 31 May 2019.

Results of processing 2018 External Examiner's Reports

3. The following table discloses the amount of money under the control of law practices in New South Wales reported as at 31 March 2018:

Type of Trust Money	31 03 2018	# of A/cs	31 03 2017	# of A/cs
General Trust Money	3,259,284,440	140,128	3,217,832,577	139,343
Controlled Money	5,985,948,076	33,559	4,853,839,562	35,006
Money subject of a power	394,949,005	699	450,868,849	717
Investment of Trust Money	175,825,726	509	124,522,450	972
Total:	9,816,007,248		8,647,063,438	

4. There were 3,612 External Examiners' Reports received for year ended 31 March 2018 of which 3,077 were unqualified and 535 qualified. 20 Reports were adverse. A qualified report has a negative response in the external examiner's opinion or a qualified/adverse comment in paragraph 2 or 7 of the report.
5. There were a number of qualified reports received due to the Authorised ADI's failure to provide paid cheques. Please refer to the Instructions to External Examiners document in regard to the sighting of paid cheques which has been published on the Law Society website.
6. There were 1,171 External Examiner's Reports received which recorded a breach of the Regulation and 2,441 reports received which disclosed no breaches.

7. A very common matter noted during the 2018 review process was the number law practices reported as carrying adjusting items in the bank reconciliation for extended periods of time. External Examiners are requested to review this issue and if there are extended delays in rectifying the issue to draw it to the attention of the Trust Accounts Department by making a note in Paragraph 7 of the External Examiner's Report.
8. Another breach that was commonly noted related to the requirement to produce a trial balance and bank reconciliation within 15 working days after the end of the month. External Examiners are encouraged to record the extent and frequency of the breach to enable adequate review by the Trust Accounts Department.
9. The following table illustrates the Trust Accounts Department's actions in relation to the reports received which included breaches of the legislation and/or brought other matters to the attention of the Law Society of New South Wales:

Category/Actions Taken	Number of Reports	
	2018	2017
Noted – No Further Action	1,363	1,282
Letter Issued – Reply Not Required	204	224
Letter Issued – Reply Requested	19	35
Scheduled for Investigation	100	92
Breaches referred to Investigator (routine investigation already scheduled for an Investigator)	45	32
Letter to Examiner requesting clarification regarding the breaches reported	12	14
Combination of above	30	33

2019 Forms

10. Law Practice Confirmation and Statement of Trust Money

The Law Practice Confirmation and Statement of Trust Money and External Examiner's Report are uniform between New South Wales and Victoria.

- **Part A – Law Practice Confirmation.**

The content of the Law Practice Confirmation has not changed from the previous year's document, however the requirement to submit Part B and an External Examiners Report has changed in some circumstances.

Part B and an External Examiners Report are required if a law practice:

- Received or held money that was required to be deposited into a General Trust Account in this jurisdiction;
- Received or held Controlled Money;
- Received direction to Invest Trust Money on behalf of any person;
- Received or held trust money Subject to a Specific Power excluding power money pursuant to the PEXA Settlement Scheme.

Part B and an External Examiners Report are not required if a law practice only:

- Received or held trust money Subject to a Specific Power pursuant to the PEXA Settlement Scheme;
- Received or held trust money Subject to a Written Direction.

- Received or held Transit Money

- **Part B – Law Practice Statement of Trust Money.**

The content of the Statement of Trust Money has not changed from the previous year's document. As with the past two years' documents, two additional tables have been added to the form. The law practice is asked to provide a breakdown of the Trust Trail Balance and Controlled Money Listing as at 31 March 2019. PLEASE NOTE that the information provided by the law practice in these tables is not part of the scope of the external examination and this statement has been included in the tables.

- **External Examiner's Report**

The content of the External Examiner's Report has not changed from the previous year's document.

- **External Examiner's Checklist**

A Checklist is available to guide Examiners through their examination of the various forms of trust records maintained by the law practice and to assist in the assessment of compliance with the Legal Profession Uniform General Rules 2015. The Checklist is available at the Law Society website.

The use of the Checklist is not mandatory, however Examiners who do not use the Checklist are required to retain appropriate work papers that evidence the compliance review.

Examiners will note that the checklist records some breaches with an "-" at the end of the breach followed by a number. This has been introduced for rules with more than one requirement for the record. It now allows the Examiner to report only that piece of information that is not recorded in the required record.

Administration

11. The 2019 Law Practice Confirmation and Statement of Trust Money and External Examiner's Report are required to be submitted online via the Law Society of New South Wales website. Emails are sent to external examiners and law practices explaining the process.

Other Matters

12. The Trust Accounts Department received numerous telephone enquiries regarding the requirement for the Examiner to report on dormant trust ledger balances held in the general trust accounts. A dormant trust ledger balance is defined as a trust ledger account whereby the relevant matter had been completed and there is a balance in the ledger account with no movement in the past 12 months after the completion of the matter.

13. The Examiner is required to review the list of dormant balances (if any) and determine whether the law practice has taken steps to review and eliminate the balances. If the Examiner is not satisfied or concerned with the law practice's procedures, the matter should be noted in paragraph 7 of the External Examiner's Report.
14. The same applies for the review of overdrawn trust ledgers. The Examiner is only required to comment on overdrawn trust ledgers if the Examiner considers (1) that the overdrawn trust ledgers have not been rectified in a timely manner or (2) that the overdrawn trust ledgers represents a major breakdown in the accounting for trust money or (3) the law practice has benefited without reasonable excuse.
15. The overdrawn trust ledgers and dormant balance listings which are supplied to the Examiner by the law practice are not required to be submitted to the Trust Accounts Department.

Jim Sofiak
Chief Trust Account Investigator