

Compliance Audit Frequently Asked Questions



Audit Program

1. What is a compliance audit?

A compliance audit is the examination of books, records and accounts to assess compliance with the requirements of the Law Society Rules, the *Code of Professional Conduct for British Columbia* (The *BC Code*) and the *Legal Profession Act*. All law firms in BC are subject to a Law Society compliance audit and Rule 3-85 authorizes the Law Society to perform the audit.

2. What is the purpose of a compliance audit?

The primary goal of the compliance audit is to ensure that all lawyers and firms adhere to the rigorous trust accounting standards required to maintain public confidence in the legal profession and to ensure the safe handling of trust funds. The compliance audit process also provides guidance to lawyers and law firms with respect to the trust accounting rules and auditors can advise on how to correct minor rule breaches before they lead to serious issues of non-compliance.

3. Who will conduct the audit?

Auditors from the Trust Assurance Department of the Law Society, who are Chartered Professional Accountants (CPA), will conduct the audit. Trust Auditors may also hold other designations such as Certified Anti-Money Laundering Specialist (CAMS) and Certified Fraud Examiner (CFE).

4. Will the firm have to pay for the compliance audit?

No, the compliance audit program is funded by the trust administration fee and is at no additional cost to law firms.

Audit Selection

5. Why was the firm selected for a compliance audit?

Audits are randomly selected with the overall goal to audit each firm at least once within a 4-year or 6-year cycle, depending on the firm's area of practice. However, we may audit a firm more than once in a cycle in certain instances. Some examples include:

- the failure to file a trust report or file a trust report in a timely manner;

- information on a trust report that indicates non-compliance with the trust accounting rules;
- a referral from another department of the Law Society; and
- deficiencies that were identified during a previous compliance audit that require follow up.

6. The firm does not maintain a trust account. Why is a compliance audit required?

Firms that do not maintain trust accounts are still required to maintain books, records and accounts that comply with the provisions of the *Legal Profession Act*, the Law Society Rules and the *BC Code*.

7. Why was the firm selected for a compliance audit after recently filing a trust report?

Filing a trust report is an annual reporting requirement independent from a compliance audit. As such, the review periods of the trust report and compliance audit may coincide. The trust report does not replace a compliance audit, or vice versa. There are two types of trust reports:

- Self-Report, which is completed entirely by the firm; and
- Accountant's Report, which requires the firm to engage an independent and qualified CPA to complete Section C of the report.

Schedules, Availability and Communication

8. Can the audit be rescheduled or cancelled?

Where there is a scheduling conflict, the responsible lawyer must contact us to request a reschedule of the audit within 1 week of receipt of the introduction letter. The audit cannot be postponed longer than two months and cannot be cancelled. We require the client trust ledgers from the audit period start date to the date of our letter and the most recent reconciliation of the main pooled trust account in order to consider the reschedule request.

9. Are lawyers required to clear their schedules for the audit?

We strive for minimal disruptions to the firm and try to accommodate the lawyer's schedule. The responsible lawyer needs to be available for the interview meeting and to answer the auditor's queries periodically throughout the audit. If we are conducting the audit remotely, we will conduct most communication via email or TitanFile.

10. Does the firm's bookkeeper or accountant need to be available?

In most cases, we will require the contact information of the individual responsible for preparing the books and records to answer applicable questions.

11. Is the firm required to communicate via TitanFile?

The Law Society has vetted TitanFile to be a secure platform to upload documents and exchange correspondence. Communication via TitanFile is recommended, but not mandatory.

Onsite or Remote**12. Will the audit be conducted at the firm or remotely?**

The compliance audit will be conducted at the Law Society office in Vancouver, unless other arrangements have been made. If the firm prefers the audit to be conducted at the firm's physical office, please contact us immediately so we can make appropriate arrangements.

13. What is considered a suitable workstation for auditors attending the firm's office?

If it has been determined that the compliance audit will be conducted at the firm's office, the auditor must be provided with a suitable workstation. At minimum, the auditor requires a quiet location with a desk, comfortable chair, and access to an electrical outlet to plug in a laptop. An area in reception or the reception desk is not a suitable location.

Books and Records**14. What records are required for the audit?**

Our letter provides a table listing records required to complete the audit, along with the applicable due dates.

15. What are the delivery methods for Item 1 in the table of the introduction letter?

The client trust ledgers and trust reconciliation must be emailed to complianceaudit@lsbc.org.

16. What are the delivery methods for Item 2 in the table of the introduction letter?

If the audit will be conducted at the firm's office, the books and records listed on the *Compliance Audit Books & Records Checklist* must be assembled, labelled, and be available for review upon the arrival of the auditor.

If the audit will be conducted remotely, use one or both of following option(s) to deliver the records listed on the *Compliance Audit Books & Records Checklist*:

1. Upload electronic records via TitanFile using the link provided in our email.

In your email inbox, you would have received a separate TitanFile notification email. Click the “Access Files” button to create a new free TitanFile account or to log in to your existing TitanFile account.

2. Deliver records to our office at 845 Cambie Street, Vancouver.

The records can be delivered either in paper form and/or on an encrypted USB drive, to the attention of the Trust Assurance department. Ensure to include the name and contact information of the law firm, as well as the file number indicated in the subject line of our introduction letter.

Should you need special arrangements to deliver the required records, please email us at complianceaudit@lsbc.org.

17. In what format should electronic records be provided?

Client trust ledgers generated from an accounting software should be provided in both PDF and Excel format. All client trust ledgers for the audit period must be provided, including archived and inactive ledgers, generated on one report.

All other reports, including the monthly trust reconciliations, should be provided in PDF.

18. Does the auditor need access to the firm’s computer system?

No, the auditor will not be accessing the accounting records through the firm’s computer system. We ask that the firm provide electronic copies or paper copies of the requested accounting records and client files.

19. Are lawyers required to provide client files?

Yes. The auditor will request a sample of approximately five to ten client files to review. Please provide the complete client file, client identification and verification records, and the client trust ledger since inception for each selected file. If you have questions about the contents of the client files, please discuss this with your auditor.

Section 88 of the *Legal Profession Act* preserves the confidentiality or privilege that may be contained in any documents provided to the auditor.

Audit Process

20. What are the next steps after providing the books and records listed on the *Checklist*?

If the compliance audit is completed remotely, an auditor will contact the firm to advise they have started the compliance audit and to arrange for an interview with the lawyer responsible for the accounting records. If the compliance audit is completed onsite, the auditor will interview the responsible lawyer during the audit, usually on the first day.

The interview assists the auditor to understand the firm's processes and procedures. The responsible lawyer may wish to have the firm's bookkeeper attend the interview.

21. How long will the audit take?

Our goal is to complete the audit within 1 to 2 months of receiving the books and records on the *Checklist*. However, the duration may vary and is dependent on the complexity of the areas of practice, the timeliness of receiving records and explanations, and the auditor's schedule.

Post Audit

22. Will the firm be advised of the audit findings?

Yes, at the conclusion of the audit we will deliver a *Compliance Audit Summary Report* and discuss the audit findings as described in the report. We will follow up with a letter providing additional resources. The letter may ask for a written response with information and/or confirmation that the firm has implemented appropriate measures to ensure compliance with specific rules. If the deficiencies in the trust accounting records are serious, we may arrange a subsequent audit to assess whether the firm has carried out the corrective actions required to ensure compliance.

23. Does the firm still need to file a trust report after the audit?

Yes, a trust report is required every 12 months, regardless of the timing of the compliance audit. A filing notice with instructions will be sent to the firm 3 months before the trust report is due. The filing notice will advise whether the firm is required to file a Self-Report or an Accountant's Report for that reporting period.

Additional Questions – contact information

- Email complianceaudit@lsbc.org
- Phone 604.697.5810 or 1.800.903.5300 (extension 5810) [toll free in BC]