

Date	11 February 2025
Item	08.00
Title	Proposed Action Plan following consideration of the Axiom Ince Review
Author	Simon Blandy, Director of Regulation
Purpose	This paper sets out a proposed Action Plan for the Board to approve following consideration of the Axiom Ince review
Recommendation	The Board is asked to APPROVE the proposed Action Plan (Appendix 2).
Timing	As set out in the Action Plan (Appendix 2).
Impact Assessment	N/A
Impact on Regulatory Objectives	The work covered in this report impacts on the following: <ul style="list-style-type: none"> - encouraging an independent, strong, diverse, and effective legal profession. - protecting and promoting the consumer and public interest; and - promoting and maintaining adherence to the professional principles. - promoting the prevention and detection of economic crime
Implications for resources	Administration Officer to be recruited. Otherwise, actions will be implemented from current resources.
Impact on consumer empowerment	No direct impact
Impact on ongoing competence	No direct impact
Publication status	For publication.
Appendices	08.01 Letter LSB to CRL 08.02 Draft Action Plan

Summary

1. This Report sets out the context of the Axiom Ince review and proposes an Action Plan to address issues identified following consideration of that review.
2. Reports on progress will be included in the Director of Regulation's quarterly report to the Board.

Context

3. The LSB instructed Carson McDowell to carry out an [independent review](#) of the regulatory events leading up to the SRA's intervention of Axiom Ince. The SRA started an investigation into Axiom Ince in July 2023 and uncovered what is alleged to have been a large scale and complex fraud. More than £60 million of client funds may allegedly have been misappropriated.
4. The Board's attention is drawn in particular to Carson McDowell's summary findings (pages 4-11). The key purpose of the review was to focus on the effectiveness with

which the SRA discharged its regulatory functions in relation to Axiom Ince under the Legal Services Act 2007 (LSA) and establish:

- a. The adequacy, efficiency and effectiveness of the SRA's regulatory actions
 - b. What further actions the SRA could or should have taken (if any)
 - c. What changes are required (if any) to SRA policies and/or procedures to mitigate the possibility of a similar situation in light of any actions or omissions identified.
5. Whilst acknowledging that it had been provided with evidence of excellent work by the SRA in uncovering and investigating the alleged fraud, Carson McDowell concluded that the:
- a. The SRA did not act adequately, effectively and efficiently
 - b. The SRA did not take all steps it could and should have taken, and
 - c. The SRA's actions and omissions in the Axiom Ince matter necessitate change in its procedures to mitigate the possibility of a similar situation arising again.
6. It was agreed immediately following publication of this report that a paper should be put to the Board identifying lessons to be learnt and recommending action to be taken.
7. A letter was also received from the LSB (see Appendix 1) commenting that there is learning in the report which it considered has the potential to improve the effectiveness of regulation in the legal services sector and encouraging CRL to consider the ways in which it discharges its regulatory functions and decision-making processes in the light of the review findings.

Draft Action Plan

8. CRL currently regulates 21 CRL firms and 39 CILEX-ACCA Probate Firms¹. CRL firms are generally smaller sized firms specialising in one or two areas of law. Where they hold client money they must comply with prescriptive rules for holding client money, keeping proper records and submitting an Accountant's Report. CRL firms are required to submit an Annual Return and an AML Statement each year which are then reviewed. This encourages frequent interaction between CRL and each of the CRL firms making it easier for emerging concerns to be identified and resolved at an early stage. Consideration of the Axiom Ince Review has helped to identify areas for further improvement, primarily of CRL's own processes.
9. The Action Plan (see Appendix 2) summarises the key findings of the Axiom Ince review, compares them with CRL's current position resulting in a series of actions (with timings) to address any identified deficiencies. Reports on progress will be made to the Board.
10. The Action Plan will be reviewed and, if appropriate, updated after the LSB has determined whether to set directions under s.32 Legal Services Act 2007 (following on from the Axiom Ince Review) and after the SSB review has been published.
11. The Board is asked to APPROVE the Action Plan at Appendix 2.

¹ 'The CILEX-ACCA Probate firm can only provide the reserved element of probate activity, all other associated work such as estate administration will need to be undertaken through the associated ACCA regulated accountancy firm. In addition, the CILEX-ACCA Probate firm is not allowed to hold client money.' See further [CRL Website](#)

Letter LSB to CRL re Axiom Ince Review

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5th November 2024

Dear John,

Review of the Regulatory Events Leading Up to the Solicitors Regulation Authority's Intervention into Axiom Ince Limited

The Legal Services Board has published the above report on 29 October 2024, and I am writing to draw it to your attention. The review focused on the effectiveness with which the SRA discharged its regulatory functions in respect of Axiom Ince in accordance with its duties under the Legal Services Act 2007 (the Act).

The full details of the recommendations can be found in Chapter 4 of the report. While the review is specific in the nature of its findings, there is learning in the report that we think has the potential to help improve the effectiveness of regulation in the legal services sector. I would encourage you, therefore, to consider the ways in which you discharge your regulatory functions and your own decision-making processes, in light of the review findings.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Craig Westwood', written in a cursive style.

Craig Westwood
Chief Executive

Assessment of CRL regulation of CRL firms against findings of Axiom Ince Report and Action Plan

	Axiom Ince Finding	Current Position	Action	Timing
1	Not directly related to the Axiom Ince findings - Disclosure Requirements	Principle 4 CILEX Code of Conduct may be insufficiently explicit about the requirement to respond (and timeliness in responding) to requests for information and production of documents	Determine whether change is required and if so whether this should be effected by amendment of the Code of Conduct or by guidance	Q2 2025
2	Practices must maintain fully written up client account ledgers	CRL firms required to maintain fully written up client account ledgers (see Rule 3 at 3 below)	No action required	
3	Accounts inspection procedure – <ul style="list-style-type: none"> • FIOs² were not required to confirm client account balances direct with the bank and did not follow relevant standard procedure • The system of supervision was insufficient – omissions were not picked up in the internal managerial review process 	Accounts Rules <ul style="list-style-type: none"> • Rule 2 – application of client money • Rule 3 – importance of not mixing your own or your firm’s money with client money • Rule 7 – must maintain complete and accurate accounting records which must be available for inspection • Rule 8 – Client Account reconciliation every 5 weeks • Rule 9 – Accounting records must be retained for 6 years • Rule 10 – all firms must deliver Accountants Report every year (whether the report is qualified or unqualified) and, if no client money held, a certificate of confirmation • Rule 11 – RA³ must carry out prescribed checks 	Draft internal statement of practice for accounts inspections to include requirement: <ul style="list-style-type: none"> • to confirm client account balances direct with the bank • to check off each account balance against the relevant bank statements 	Q2 2025
4	Approach to regulation of client accounts is light	CRL approach to regulation of client accounts is sufficiently prescriptive (see 3 above)	No action required	

² FIO – Forensic Investigation Officer

³ RA – Reporting Accountant

	touch and should be reviewed			
5	Appropriate system of supervision for firms	<p>Each firm is required to complete</p> <ul style="list-style-type: none"> • Annual Return – on the anniversary of the authorisation of each practice • AML Statement – each year, currently by end of June <p>Each Annual Return and AML Statement together with supporting documents is checked and recorded. Based on that information the risk assessment for each practice is updated. An overview of the risk assessments for all CRL firms is also updated.</p>	Draft internal statement of practice to confirm process for reviewing Annual Returns and AML Statements, updating individual firm risk assessments and overview risk assessment for all CRL firms	Q3 2025
6	Appropriate file inspection procedure	Current file inspection procedure needs to be documented	Draft internal statement of practice to confirm file inspection procedure	Q3 2025
7	Ineffective qualitative assessment of proposed purchases including a review of the client account which to assist in revealing any alleged misappropriation of client account funds	<p>Each entity applying for CRL authorisation is required to satisfy very specific expectations (Rule 4 Authorisation Rules and Guidance) – the same considerations apply for approval of transfer of practices. This includes a process for the firm to carry out its own risk assessment.</p>	Review to determine whether separate guidance is required for assessment and approval of transfer of practices	Q3 2025
8	Where there is a transfer of business there is an ineffective risk assessment/due diligence process for both the acquiring and target firms	Avoid adverse impact for clients and client account before and after transfer effected		
9	Limitations of processes in joining together	The current size and structure of the team supervising CRL firms means that this is not currently a risk	No immediate action required, although this	

	information from different teams to take a holistic view of risk		consideration will be kept under review	
10	Importance of maintaining a formal record of decisions	A detailed log is kept of decisions relating to individual firms including a risk assessment of each practice which informs overall risk assessment of CRL regulated firms	Incorporate process in internal statement of practice	Q3 2025
11	Requirement for appropriate level of capacity and capability	The Entity Authorisation and Supervision Officer (EASO) has primary responsibility for the authorisation and supervision of CRL entities subject to the supervision of the Director of Regulation. Recruitment will begin shortly for an AML Officer to support the EASO and increase team resilience.	Recruitment of AML Officer	Q1 2025
12	Process for determining whether powers of intervention should be exercised	Internal statement of practice process required to assist in early identification of risk and risk mitigations	Draft internal statement of practice	Q3 2025
13	Process for Exercising Power of Intervention	Written process required for the exercise of the power of intervention		
14		Set up an intervention bank account separate from CRL Compensation Fund bank account	Set up an intervention bank account	Q1 2025
15	Challenge: devise supervisory tool less invasive/destructive than intervention	A range of compliance requirements and conditions are currently being trialled (applying Rule 4(9) Authorisation Rules) which are less invasive/destructive than intervention.	To be incorporated into internal statement of practice (at 12 & 13 above)	Q3 2025