

Dynamic

LAWYERS TRUST ACCOUNT SOFTWARE

CLIENT BILLING BEST PRACTICE WHITE PAPER

2020

Legal Professionals require custom billing infrastructure to accurately complete the client reporting process and ensure adequate cash flow. High quality Mobility, Flexibility, Consolidation and Review capabilities are essential components of a dynamic, integrated, billing system.

12 minute read.

Billing is seldom a consideration when a client instructs a law firm. But inaccurate billing and difficult to interpret billing documents can quickly lead to dissatisfaction, creating difficulty retaining clients.

Very often the most important aspect of client billing is not merely the recording of value of work done, but the timely presentation thereof to the client as a request for payment. A single client with multiple matters may require a single, consolidated invoice or statement of account.

Specialized reporting documents, such as Conveyancing settlement statements, or Litigation Bills of Cost are not covered in this discussion as they do not form part of the typical billing cycle. Rather such documents form part of the professional mandate and should be included with the operational activities of the firm.

Fees to Cash

It is a universal truth that for law firms timely billing is key to realizing optimal cash flow. Ensuring accurate, regular billing depends on the professional's ability to properly account for time spent, third party costs incurred and allocation of trust funds. The sooner billing takes place, the sooner payment may be expected, resulting in revenue becoming available as working capital. Ultimately profitability is a function of rapid fees to cash conversion. Therefore, it is vital that billing processes are as streamlined as possible, but in many organizations this is far from the case. Many struggle with manual methods for submitting and reviewing time to fees conversion, managing matter related items, coordinating approvals, processing expenses, and more. These factors not only slow cash flow, they also hinder profitability — just as much as clients who pay late.

Why is timely and accurate billing important? Normally, invoices cannot be sent until all billable hours, and expenses on a matter have been captured. More exciting legal work is always available and completing boring administrative work is never a priority, which often means professionals are inevitably late in submitting their hours or fail to submit them altogether. It becomes a protracted effort to collect the information needed to prepare an invoice.

A related problem is billing accuracy. To invoice accurately, precise information is needed about factors that can vary. For example, partners, associates and candidates all bill on separate tariffs, and different clients are billed at different rates, or the same professional's time is billed differently per task.

Before invoicing, each professional's contribution, calculated from hours and

rates must be calculated. This process can be slow and tedious if done manually. And, if any of this data has to be re-entered at any stage, errors can result. Such problems only increase with the number of professionals engaged.

What happens if billing is wrong? Contested invoices delay payment and can erode client confidence and loyalty. All of these difficulties can be overcome by implementing software that simplifies and centralizes data entry and management. With the right software in place, user adoption rises and information about billable hours becomes available instantly, making it easy to shorten billing cycles and accelerate cash flow.

Timely billing is a vital element of cash flow. With a manual system, a view of billable hours and expenses is fragmented and always out of date. Inherently, manual time and expense tracking systems involve significant administrative costs, and the potential for error and omissions is very high. In a cloud-based system, however, information about matters is easy to see, and updates are available in real time as users enter their data. As a result, it's easy to prepare billing based on actual, up-to-the-moment input.

Recoverable Disbursements

Disbursements paid on behalf of clients have already taken cash out of circulation. Client billing mechanisms should facilitate the capturing of diverse items and readily distinguish the nature of each item both for internal record purposes and when presented to the client. It is imperative that these items are reflected on client billing documents as a priority and that recovery takes place urgently.

Disbursements should not be confused with professional billable work. The value of professional work may be negotiated, but disbursements have already left the firm out of pocket and refund should be sought in the shortest possible time frame. Disbursements relate to a specific, identifiable matter, they are not generic. Disbursements require documentary support, which means that the item can always be tracked and is supported by a document. Items perceived as “costs” which are not based on an external supporting document are not disbursements. Disbursements are always unique, specific and rarely recurring. Disbursements are always invoice based.

Recoverable Expenses

Expenses are generally paid from Income and impacts the firm's Profit. Recoverable Expenses are cost items incurred by the firm but which may be justifiably recovered from a client. Common examples include print, scan, copy,

fax, phone and email. These items may be managed by third party cost recovery software. These items should generally be treated as fees, and where applicable are subject to VAT. A suitable solution will allow for semi-automated processing between the recovery centers and the firm's central accounting system.

Confusing Disbursements with Fees ignores the essential cash flow aspect of the one, and undermines the profit nature of the other. Where Value Added Tax is concerned, an unnecessary additional obligation may be incurred when including disbursements in fees.

Mobile & Online Billing

Limiting billing activities to the availability of a physical file, or to the formal office environment is restrictive and unproductive. Billing, or at least time recording of billable events, should occur in real time. An advantage of real time billing is that events can be logged as they occur, increasing accuracy and reliability. Subsequent event reconstruction of manual time and billing sheets are notoriously boring and error prone.

Modern technology allows accurate, up to the minute event logging. Mobile billing refers to billing performed on a mobile device, typically using an app. Common mobile devices include internet connected smart phones and tablets. With smartphones ubiquitous in our industry, access to mobile apps allows for increased productivity. Activities can be time logged directly as events occur, which increases accuracy and reliability of the time sheets. Events can be logged to time sheet apps, or directly as fees. Additional multimedia supporting data may be recorded, such as photos and voice recordings.

Online billing refers to billing performed through an online portal, not specifically an app. Web interfaces or easily downloaded software with typical username and password login credentials allow billing from any computer or device with an internet connection.

Direct online fee entry or time keeping by way of mobile apps prevents omissions and increases accuracy.

Integration: Import billing sheets

Fragmented billing processes increase confusion and lead to errors and unnecessary duplication which detracts from professional billing. Accurate, timely billing depends on consolidated records. Consolidating and integrating

billable items from a variety of diverse sources, regardless of the point of origin of individual fee items on the billing sheet, should lead to a single working document. Multiple systems invariably lead to confusion and reduced productivity. Reducing these different sources to a single, controlled, editable record reduces errors and promotes systemic integrity.

Smaller firms tend to keep billing information per matter. In older, paper based environments, a sheet of paper is typically kept with manual entries of billable activities. More modern systems often involve one or more spreadsheets with billable activities. These sheets are not client billing documents yet, but form the transaction basis of billing documents. It is not unusual to find the relics of work done, without a clear record of the billable value of that work done. Professional activities should be reduced to entries of billable value in consolidated billing records as soon as possible. *It is not enough to do the work, the value must be recorded.*

A single, consolidated record of all billable activities should be maintained. A powerful central location with data import and manipulation capability should be maintained. Mobile apps with export capabilities to established data exchange formats, such as XML, CSV or flat file formats eliminates the need to re-type, re-work or redo data previously captured.

Online billing should preferably be directly to such a consolidated location, obviating the need to again port fees from one platform to another.

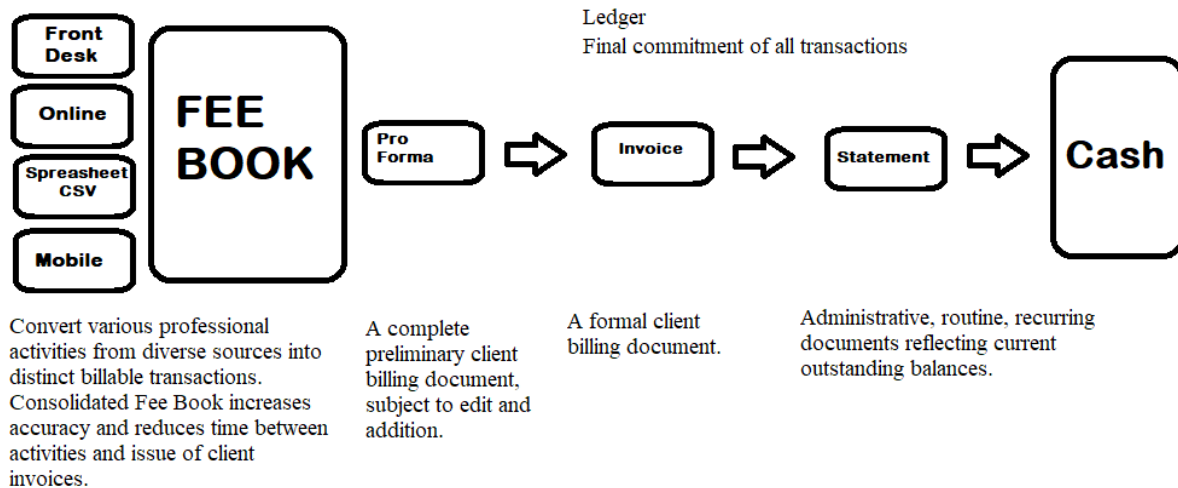
Increased integrity and accuracy increases confidence, which in turns leads to increased usage and more rapid adoption.

A single, online Fee Book to rule them all

Consolidation of billing transactions into a central cloud based repository allows for accurate, immediate reporting and generation of on demand billing documents. An online Fee Book allows for review and editing. Consolidating fees into the Fee Book should be the first step in the client billing process. This pre-ledger step allows for quality control, error checking and Pro Forma billing.

Once billable items from all available sources have been consolidated, accurate, up to date reports can be drawn on each matter. Care should be taken to ensure that all fee pockets are reflected in full, at the maximum rate, which may differ from one matter to the next. Care should be taken that the applicable tariff is used and that billing is completed accurately the first time. Completeness, accuracy and rapid consolidation should be emphasized.

Pre-Ledger consolidation of fee transactions



Anytime access, anywhere prevents a once-a-month mindset where the firm comes to a operational stand still while billing is completed. Billable items should be reviewed continuously, with quality control as a continuous, every day occurrence, not an exceptional, occasional event.

Work in Progress A Fee Book should provide for review of *work-in-progress* and easy addition, update or amendment of items prior to invoice. Fee Book items should be categorized in a way which conforms with the firm's operational activities. A clear distinction must be maintained of final, invoiced items which may not be amended, and as yet not invoiced items which may still be subject to review, update and amendment. The Fee Book presents an opportunity to consider and discuss all items prior to the issue of a final invoice.

The Fee Book should not only allow for entry of data from multiple sources, it should also provide narrative history of events in memo form which are not necessarily included in client billing documents. Sufficient tools should be provided to distinguish, and manipulate recorded items, so that records can be converted to fees, and fees billed to clients without unnecessary duplication or rework. Fee Book Age Analysis breakdowns by matter, fee earner and practice area are expected.

Eventually billable items should easily and automatically be processed to the final accounting records. Seamless integration between the Fee Book and the operational financial system should be expected. Seamless integration of billable transactions into the Fee Book should be encouraged, and subsequent semi-automated processing from the Fee Book to the final Ledger should be expected. Item level show/hide functionality supports ledger extracts to statements, reducing the need for rework.

The Billing Cycle

Work takes time and time is money. Activities should be recorded as concise, quantified, billable items as soon as possible. Once committed to the system, client billing documents may be generated on demand. A suitable software solution should facilitate easy and convenient production of client billing documents. Where work-in-progress covered an extended period of time, but is only billed on a later date, the system should provide for multiple dates in a way that is readily understood and not confusing to the end user, often the client not familiar with the intricacies of legal practice. Re-typing billing data from a consolidated store into another document should be avoided.

Pro Forma A *Pro Forma Invoice* contains a concise and up to date indication of current work done and is presented in a format easy for the client to understand. It should contain all the elements of a formal, final invoice, except that it is still subject to review. This includes all items that would normally appear on an invoice, but have not yet been invoiced. Presenting a Pro Forma Invoice provides an informal step to allow discussion of the work it reflects and amendment of the contents. Where so negotiated, Discounts may be added to the account. If applicable, VAT particulars are reflected. Final, inclusive amounts should be presented throughout. Pro Forma Invoices may be sent repeatedly and the content updated and amended as required. Only once certainty has been obtained as to the content of the Pro Forma Invoice, a final, formal invoice should be issued.

Pro Forma Invoices are seldom unique and are subject to amendment.

Invoice The *Invoice* includes any items that have not yet appeared on an invoice. Once an item has appeared on an invoice, it is final and cannot appear on subsequent invoices. A suitable solution should allow for an invoice to be generated, and re-generated on software demand, repeatedly. Multiple invoices can be generated during the course of a month. Invoices may be generated at any time. Invoices are final documents, but may be regenerated on demand.

Invoices are unique final documents with special identifying serial numbers.

Pro Forma and final Invoices typically only reflect billable items, without opening or closing balances.

Statements Statements reflect all activity on a specific matter. The contents of a statement is not limited to billing information, but should reflect additional transactions such as payments, with a net balance, inclusive of trust activity. Itemized statements report all transactions in detail, while non-itemized statements compress invoiced items to single lines on the statement. Statements are flexible reports, continuously changing as the account is updated.

Statements are routine reports reflecting the current state of affairs. Invoice trackers or Age Analysis breakdowns are often used to highlight outstanding amounts.

Using the Pro Forma Invoice as a quality control step, final Invoices and Statements may be sent systematically without further user intervention. The Statement should, as a matter of course, also reflect the trust position.

Care should be taken to provide for the unique billing requirements of individual clients. Where necessary the system should be configured in such a way that recurring billing takes place with as little intervention as possible. It is counter intuitive to use a sophisticated fee recording system, and still issue dictated, typed invoices.

A suitable system should meet and exceed these expectations.

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