

ICAEW



# PRACTICE ASSURANCE HIGHLIGHTS



BUSINESS WITH CONFIDENCE

[icaew.com/practiceassurance](https://icaew.com/practiceassurance)

# WELCOME



**Michael Izza**  
ICAEW CEO

“ The QAD reviewers are a great source of feedback for me – they’re in touch with members in practice on high streets across the country and they get useful insights into what our member firms want and need from ICAEW. I meet with them regularly to hear their views and ideas; and I do listen!

It’s important to me that our response is visible and helpful, and I’m delighted our upgraded website goes some way to addressing this, by highlighting what practice resources are available.

This report gives valuable feedback on results from over 2,000 Practice Assurance visits in 2010. Practice Assurance is the public face of our professionalism. It’s what differentiates us from unregulated accountants. Now, more than ever, it’s critical we maintain and improve our standards. This report helps us achieve that.

**ICAEW** monitors the unregulated accountancy business of **12,500** member firms in the **UK and OVERSEAS** through its Practice Assurance scheme. Our approach focuses on how firms manage risk; taking account of their governance systems and the procedures they have in place to ensure compliance with the **PRACTICE ASSURANCE STANDARDS**. Applying a top-down approach, we cover all areas of the unregulated practice, looking at policies and procedures for client risk assessment and engagement, quality control, competence, and compliance with relevant laws and regulations. Our visit model is **FLEXIBLE**; our objective is to help member firms **MAINTAIN and IMPROVE** professional standards across their practice.

# REVIEW OF 2010

**In 2010 one of the key events for ICAEW was our first monitoring visit from the Professional Oversight Board (POB).**

POB carried out a review of the monitoring arrangements by the UK professional bodies of their members who provide non-regulated accountancy services. You can read their report and our response at [www.frc.org.uk/pob](http://www.frc.org.uk/pob). We found their report very timely and a good reminder of why the Practice Assurance scheme was introduced. Our objective is to support members by providing them with a framework of quality assurance principles, to help them assess and develop their practices, and to offer practical support and advice.

In 2009 we made some changes to the way we do visits, which are probably familiar to many of you by now. We introduced telephone and surgery visits, and decided to try to see as many new firms as possible in the early months of their firms' lives to give them the most appropriate support and feedback from the beginning.

The POB acknowledged these changes and, in its report, encouraged us to refine our visit model further and introduce more focused, risk-based reviews. In 2012 we will enter the second cycle of Practice Assurance monitoring visits and we intend to build on the changes we've already put in place.

Consistent with the spirit of the Practice Assurance objectives, we're also thinking about how we can improve the way we spread the word about best practice and make sure the right support is easily available to our member firms.


We always welcome feedback and ask all the firms we review to rate our visits. We have a good response rate, although it is down on last year (44% in 2010; 50% in 2009). Nevertheless, the 2010 results were very positive and consistent, in terms of what firms said, with 2009.


# LOOKING FORWARD


**We're now thinking about the next phase of Practice Assurance which will focus on the lifecycle of our member firms.**


We've already started thinking about the second cycle of Practice Assurance and in 2011 we will pilot some of our ideas for further refining our visit approach. It's a bit too early to reveal in detail what our plans are, but we're hoping to extend **telephone visits and surgeries** to more firms. These models are very popular as they are less intrusive for firms with a relatively low income and a low-risk client base. And our reviewers think this way of engaging with firms is just as robust as a face-to-face visit.


We're also going to take another look at our **new firms roadshows**. Although we currently have eight planned for 2011 at locations around the country, we've decided we need to increase our opportunities to talk to new firms. We're therefore planning to use webinars to help us keep in touch with those firms furthest from our roadshow venues.

 The telephone interview is an excellent idea for smaller firms.

 I was very happy to have been given the opportunity for a telephone visit as my firm is very small.

 The surgery format was particularly good for me. Excellent use of time.

 Very worthwhile exercise in the early days of a practice.

 It made me realise how much support and help is available for ICAEW chartered accountants.

## WHAT ELSE DO WE DO?

Did you know that PA reviewers work within the wider QAD team, providing support for audit and insolvency monitoring, and anti-money laundering supervision for non-member firms. We also manage a number of third party contracts for CIPFA, the Institute of Actuaries and, in 2010, we helped several other countries establish their audit monitoring regimes.

We have two reviewers on secondment to practice support services, providing practical consultancy advice to help practitioners improve their processes, efficiency and profitability. If you want to find out more about how they can help you, go to [icaew.com/en/members/practice-resources/practice-management/practice-support-services/practice-consultancy](http://icaew.com/en/members/practice-resources/practice-management/practice-support-services/practice-consultancy)

In 2009 we updated our approach to **large firms**, looking at their overall risk management and general compliance processes. This has proved to be a very successful model and we now plan to extend this approach to **mid-tier firms**.

Our existing visit models tend to deal with firms at the beginning or end of their **lifecycle**, before they have grown or as they start to wind down. As you'd expect, we have a large number of firms that are outside the scope of these reviews, most of which have already had a visit, so we know quite a bit about them already. We plan to use this knowledge to reduce the monitoring burden on lower risk firms.

We will also take a look at how we communicate good ideas. We already use our website to tell firms about:

- concerns that the Practice Assurance Committee (PAC) has; and
- issues that our reviewers find when they carry out their visits.

But we think we can improve on this and are exploring other channels of communication.

“ The new approach to Practice Assurance reviews has usefully provided a single review agenda for, and constructive challenge to, our whole-firm quality and compliance processes and approach. (Big 4 firm)

We like to meet our members at practice events and are always willing to speak at town group and district society meetings. We've contributed to the design of the new area of the website dedicated to practice resources and plan to work closely with the head of practice services as she kicks off new initiatives aimed at small to medium-sized practices. **Practice resources** contains a host of practical material providing news and support for practising members, and that's where you'll find the Practice Assurance pages too. Keep an eye on them!

The screenshot shows the ICAEW website header with the tagline "A world leader of the accountancy and finance profession". The navigation menu includes Home, Join us, Qualifications and programmes, Members area, and Technical. The main content area is titled "Practice resources" and contains a grid of six links, each with a right-pointing arrow:

<b>Practice management</b> Advice on setting up and running a practice, including PII, practising certificates, client acquisition and regulated services.	<b>Client services</b> News, articles and events relating to your area of work covering insolvency, audit, tax and more.
<b>Qualifications and programmes</b> View our wide range of qualifications and leadership development programmes.	<b>CPD</b> Advice on the CPD process for ICAEW members, including keeping a CPD record.
<b>Resources for your clients</b> Register for Economic Insight, view latest BCM reports and access resources for SMEs.	<b>Existing ACA employers</b> Access employer support and our comprehensive guide to training ACA students.

# LOOKING BACK

**No Practice Assurance report would be complete without some reminders of the issues that arise when we do our reviews.**

## Common issues

You'll find more details about the commonly recurring issues at [icaew.com/practiceassurance](http://icaew.com/practiceassurance)

The most common issue we found on all our visits, including those we reported to the PAC, related to a **lack of compliance with the Money Laundering Regulations 2007**.

In 2010 we carried out a benchmarking survey amongst some of our member firms. This identified two key concerns:

- firms don't always identify all the possible triggers to perform ongoing client due diligence; and
- some firms do too much initial client due diligence.

This is consistent with what we find on our visits. Firms often take a belt and braces approach to their due diligence the first time they complete it, but then forget about the requirement to revisit their risk assessments. We also found that those firms that did not carry out a regular anti-money laundering compliance review were the firms that had other issues in this area. Further guidance on how to comply with the regulations is available at [icaew.com/moneylaundering](http://icaew.com/moneylaundering)

The next most common issue related to the **Clients' Money Regulations**. A lot of our findings were quite easy to fix. For example, many firms couldn't find the bank trust letter when we visited and some didn't have an alternate in place. But some were more serious, such

as not reconciling the account every five weeks and not carrying out an annual compliance review. In some cases, failure to maintain these basic controls over the accounts led to clients' money accounts going overdrawn. Don't forget that the Clients' Money Regulations changed in 2010, so that firms can now donate unclaimed money to charity. For more information, visit [icaew.com/clientmoney](http://icaew.com/clientmoney)

Two helpsheets relate to the Clients' Money Regulations: *Clients' money regulation* (PAS1/HS14) and *Clients' money regulation compliance checklist* (PAS4/HS07).

As part of our visit we look at the **statutory accounts** you produce. This remains a problem area for some firms. We found disclosure errors in about a third of the sets of accounts we looked at. It's difficult to know why we find so many problems, but many firms don't use accounts software or disclosure checklists and there is no substitute for a quality review before the accounts leave the office.

25% of the firms we visited needed to make changes to their **terms of engagement** so that they include:

- the basis on which the firm charges fees; and
- the client's right to complain to ICAEW.

Although there is no requirement to issue engagement letters to clients, firms do have to tell clients in writing the basis on which they charge fees and about the client's right to complain to ICAEW. A letter of engagement is usually the best and most practical way to achieve this and we also think it's good practice to manage expectations for both parties. Guidance is available in our helpsheets, *Engagement letters* (PAS2/HS13) [icaew.com/helpsheets](http://icaew.com/helpsheets) and *What if you haven't issued an engagement letter?* [icaew.com/ethics](http://icaew.com/ethics)

Another common finding was that 20% of firms had not displayed the names of the companies for whom they acted as **registered office**. Something else that is easy to fix.

Lastly it's worth highlighting a couple of areas of change.

Under the **Provision of Services Regulations 2009**, firms must provide new clients with information about their professional indemnity insurer and the territorial coverage of their policy. There are additional requirements if you're audit registered. You can find further information on the Provision of Services Regulations at [icaew.com/helpsheets](http://icaew.com/helpsheets), *Services Directive* (PAS1/HS22).

ICAEW's **Code of Ethics** changed with effect from 1 January 2011. The prohibition against firms making loans to or receiving loans from clients has been removed. The changes have introduced the concept of considering the threats of any such loan before

accepting it, and what safeguards the firm might be able to put in place to mitigate the threats. We will be issuing guidance on the changes later this year.

### **Be proactive! Don't be in the minority**

Last year we did 2,331 reviews, compared to 2,071 in 2009 and the PAC considered 65 reports (71 in 2009). Although we only report to the PAC firms that cause concern, the issues we find on reviews tend to be the same.<sup>1</sup>

A number of firms don't reply to our closing meeting notes or reports, despite a number of reminders. Sadly, this can lead to disciplinary action. So, if you're asked to respond, please do so; and, if you're not sure how to respond, then phone us.

Some firms send in their annual return very late and 15% of firms make mistakes when they fill in their returns. We use the information you send us to evaluate the risk in your firm, so please be as accurate as you can.

Some firms may have a second Practice Assurance visit this year if they're also registered for audit and are due an audit monitoring visit. If yours is one of those firms, please look back at your responses from our last visit to make sure you've done what you said you were going to do.

<sup>1</sup> These comments are based on an analysis of visit findings for 60 firms we visited between 1 July 2010 and 31 December 2010 and which we did not refer to the PAC.



ICAEW is a founder member of the Global Accounting Alliance, which represents around 775,000 of the world's leading professional accountants in over 165 countries around the globe, to promote quality services, share information and collaborate on important international issues.

ICAEW is a professional membership organisation, supporting over 136,000 chartered accountants around the world. Through our technical knowledge, skills and expertise, we provide insight and leadership to the global accountancy and finance profession.

Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards. We develop and support individuals, organisations and communities to help them achieve long-term, sustainable economic value.

**Because of us, people can do business with confidence.**

ICAEW

Chartered Accountants' Hall  
Moorgate Place London  
EC2R 6EA UK

T +44 (0)1909 248 250  
[icaew.com/practicesupport](http://icaew.com/practicesupport)