



PRACTICE ASSURANCE REPORT 2009



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As a world-class professional accountancy body, ICAEW provides leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry to maintain the highest standards.

Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. ICAEW ensures these skills are constantly developed, recognised and valued.

Because of us, people can do business with confidence.

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INSPIRING CONFIDENCE

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REVIEW OF 2009

2009 was a busy year for the Quality Assurance Department's (QAD) Practice Assurance team.

We spent the early part of the year carrying out a **MAJOR REVIEW** of the way we do our Practice Assurance visits.

In the second half of the year we introduced some **NEW FORMATS** for our visits, designed to meet the needs of our practising member firms more **EFFECTIVELY**.


By the end of the year we had visited about **8,500 FIRMS** since Practice Assurance was introduced, leaving about 3,000 firms to visit by the end of the first **SIX-YEAR** cycle.

NEW FIRMS ROADSHOWS

We held six new firms roadshows across the country, inviting recently registered firms to come to a central location to learn more about what Practice Assurance means for them. We find that new firms need a different type of support: training and explanation that help them put good practices in place from the beginning. We also use the opportunity to give them guidance on the many resources available from ICAEW, ranging from member services to local regional activities. Feedback has been very positive; firms have found the roadshows reassuring and useful. We have 10 roadshows scheduled for 2010.

TELEPHONE VISITS

Many of the firms we visit have a fairly low income and do low-risk work. In the past we have visited them for a day, regardless of the nature of their business but, based on feedback from firms, we have introduced telephone visits. By the end of 2009, we had carried out 57 telephone visits. Many of these took place in the winter months when the weather often disrupts our visit programme. Firms have welcomed this new visit format as it is proportionate to the size of their practice; less intrusive but still supportive.

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REVIEW OF 2009 CONTINUED

SURGERY VISITS

For slightly larger firms (although still low-risk) we have developed an off-site surgery-style visit. For these visits, we ask practitioners to come to a central location for a one-to-one meeting lasting 90–120 minutes to tell us about their practice. We ask them to bring along a client file and other documentation which we look through together, before offering advice on what they may need to do to improve their compliance with the Practice Assurance standards. We ran 15 surgeries last year (seeing about 40 firms) and plan to increase the number of firms to approximately 150 in 2010.

PRESENTATIONS

QAD reviewers have taken time out in 2009 to present at 15 town group meetings, conferences and technical events. We find that presentations are a good way to maintain contact with members who haven't had a visit for a while, so that we can update them on recent developments, current thinking and regulatory changes.

NON-ROUTINE VISITS

We carried out 217 non-routine visits in 2009. These are visits where – based on information in the annual return or from other sources – we think firms may be experiencing some difficulty complying with the Practice Assurance standards. We also made 98 visits to firms where we had specific concerns about the quality of their unaudited accounts. Of these, we felt that 19 firms had made insufficient improvement by the time of the visit. We have asked them to submit their next set of accounts for review to show us they have improved their procedures for checking the quality of statutory accounts.

VISIT FEEDBACK

We ask for feedback on each visit we carry out. Questionnaire results continue to be very positive. In 2009, we had ratings of 98% satisfaction for process management and 99% for quality of interaction. The overall response rate was 50% for the year, which is an improvement on the 41% average of the previous four years.

LARGE FIRM PRACTICE ASSURANCE

We haven't just looked at smaller firms as part of our review. We have also reviewed our approach to Practice Assurance visits to our larger accountancy firms. We concluded that our traditional visit model doesn't cover enough ground if the practice has multiple sizeable service lines.

We have therefore extended our review of these firms to take in their overall risk management and general compliance processes. Although we are still rolling out this approach to large firms, so far we have found that it has improved our understanding of the context in which these firms operate.

SOME STATISTICS

	2008	2009
Reviewers	32	32
Visits	1855	2071
Firms referred by QAD to Practice Assurance Committee (PAC)	51 (2.7%)	107 (5.1%)
Firms referred by PAC to Professional Conduct Department (PCD)	19 (37%)	47 (44%)

WHAT WE HAVE FOUND

The only visits that are reported to the PAC are those where we identify areas of **SERIOUS CONCERN** and where the firm is unwilling or unable to make **IMPROVEMENTS** to address them. Most visits (**94%**) can be closed without being referred to the PAC.

In **2009** we wrote **107** reports for the PAC to consider, of which **47** were referred to PCD. The reports to the PAC have tended to cover a broad range of themes and the most frequently **RECURRING ISSUES** are set out opposite.

FAILURE TO OBTAIN ADEQUATE PII

Members must have PII in place for all activities regarded as public practice. We find that firms often forget to think about connected entities such as payroll bureaux when they arrange their PII. The PAC issued advice icaew.com/pacadvice on this during the year through website postings and email alerts to remind firms of the requirements.

LACK OF COMPLIANCE WITH THE MONEY LAUNDERING REGULATIONS 2007

Problems ranged from, inadequate client due diligence to lack of awareness and training on how to report matters. Further guidance on how to comply with the regulations is available at icaew.com/moneylaundering

LOANS TO OR FROM CLIENTS¹

Firms are prohibited from making loans to, or receiving loans from, any clients. Some firms think that this prohibition only applies to audit clients but that is not the case. This is another subject the PAC issued reminders about during the year.

POOR ACCOUNTS DISCLOSURE

This is an area QAD continues to focus on. In 2009 we ran a series of SME roadshows to help drive improvement in the quality of publicly filed accounts and published a helpsheet, 'Accounts filed at Companies House – How good are yours?' icaew.com/helpsheets. We also visited firms where we still had concerns about the quality of their accounts. In general, we think that our firms have raised the quality of their accounts but it will remain an area of focus for 2010.

¹ Although this prohibition reflects the current Code of Ethics, a change is under consideration. Loans to/from non-audit and assurance clients would not be prohibited but threats to independence must be considered, and if significant, safeguards applied. If approved, the change will be announced in *Accountancy* to be effective from 1 January 2011.

OUR VISIT FINDINGS

Although we don't refer many matters to the PAC, we still identify some that firms need to address. We have analysed our visit findings for 60 firms that we:

- visited between 1 July 2009 and 31 December 2009; and
- did not refer to the PAC

to see which are the common issues we discuss with firms.

As you would expect, we found some of the issues outlined on page 7 but they were not serious enough for us to report to the PAC. We also identified areas where we thought the firms needed to make some changes to show improvement. These are explained in more detail here.

FAILURE TO COMPLY WITH THE CLIENTS' MONEY REGULATIONS

The most frequent problems were that firms didn't have a trust letter in place with the bank, reconciliations weren't being done in the prescribed manner, fees were being offset when they shouldn't have been and firms weren't doing a compliance review. Two helpsheets relate to the Clients' Money Regulations: 'Clients' money regulation' (PAS1/HS14) and 'Clients' money regulation compliance checklist' (PAS4/HS07).

TERMS OF ENGAGEMENT

Many firms needed to make changes to their terms of engagement. Some firms didn't have any written terms in place: some didn't communicate in writing their basis for charging fees and the right to complain to ICAEW. Although there is no requirement to issue engagement letters to clients, the *Members' Handbook* does require firms to communicate in writing the basis for charging fees and the right to complain to ICAEW. We also think that it is good practice to have engagement letters in place. Guidance is available in the helpsheet, 'Engagement letters' (PAS2/HS13).

USING THE MEMBER FIRM LOGO

Several firms were using the wrong ICAEW logo. We have invested a lot of effort in ICAEW branding, leading to us being recognised as a top 200 global superbrand in 2009 and 2010, so we think it's important that our member firms use the brand mark on their websites and advertising, but they need to use the right one. We publish guidance on using the ICAEW identity at icaew.com/identity

REGISTRATION WITH THE INFORMATION COMMISSIONER'S OFFICE

Surprisingly 15% of the firms we sampled had not registered with the Information Commissioner (IC) under the Data Protection Act. Our view, which is shared by the IC, is that most accountancy firms need to register. Further guidance is contained in the helpsheet, 'Accountancy and the Data Protection Act 1998' (PAS1/HS17).

As part of this analysis we also looked at the best practice recommendations we made and which we do not regard as reportable. There were two main areas where we thought firms could do things better.


RECORDING CPD

In general, we find that our members are diligent in carrying out and recording their CPD, but they do not always take the time to make sure that the CPD

they plan to do is what they really need; and to think about the impact of what they have done and whether it has met the original objectives. 72% of the firms we looked at did not record their CPD using the 'reflect, act, impact' model required by ICAEW. Visit icaew.com/cpd for further guidance.

ANNUAL COMPLIANCE REVIEW

Although there is no requirement for firms to carry out a review, we find that firms that perform a review on a regular basis or complete a checklist have fewer reported matters when we visit. 55% of the firms did not carry out an annual Practice Assurance compliance review. A helpsheet, 'Practice Assurance compliance review' (PAS4/HS01), is available on the website and there is a checklist that firms can use if they find it helpful, 'Practice Assurance compliance review checklist' (PAS4/HS02).

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CONTACT CENTRE ENQUIRIES

During 2009 our contact centre took over 700 calls with enquiries relating to Practice Assurance. These calls are usually referred to the technical advisory team. One of the most common enquiries (over 200 calls) related to engagement letters but the majority of calls were about starting a practice or structural matters; things like:

- how to get a practising certificate;
- how to price a block of fees;
- the definition of a member firm;
- who can use the description 'chartered accountant';
- PII considerations;
- letterheads;
- staffing issues;
- changes in principals;
- changes from partnership to limited liability company;
- associations with non-members; and
- alternates.

Firms also called when they needed advice on quality control matters and on how to prepare for a Practice Assurance visit. If you need further guidance on any of the topics above, help is available in the *Members' Handbook*, and at icaew.com/practice

THE NEXT PRACTICE ASSURANCE CYCLE

Practice Assurance visits started in 2005 so we are nearing the end of our first six-year cycle and have started to think about what the next cycle of visits will look like. We have had great success with our new visit formats and want to build on this, but we also think that there are opportunities for us to increase the number of contact points we have with our member firms, rather than leaving them for up to six years at a time. We have been talking to firms about their preferences and have a wealth of information from our visit questionnaires. We will continue to gather feedback throughout 2010 and aim to decide what the next cycle will look like by early 2011.

CHALLENGES FOR THE NEXT YEAR

Our member firms have been through a difficult two years. In Q1 of 2010, ICAEW's *Business Confidence Monitor* has shown a modest improvement in the economy: firms expect growth in profit, turnover and sales over the coming year; inflationary pressures remain muted; there are now signs of export growth and access to capital has improved. All the signs are that the economic trend is now upwards, which will bring a different set of challenges.

We are encouraging our firms to start thinking about how an upturn in the general economy will affect them and their clients. We have identified seven strategies to help them manage and succeed through the upturn.

BE READY

Many firms and businesses took measures to protect themselves in the downturn by cutting costs and preserving cash, they are now well placed to grow and respond quickly to opportunities. This may give them an edge over the competition.

PLAN AHEAD

Review your vision and strategy, set clear goals for how you want to develop over the next 1–3 years.

LOOK TO NEW MARKETS

Do you know which products are most valuable to you? Are all your clients profitable? Did you take on clients to protect your income in the short-term, but know you will need to revisit your terms with them?

MANAGE YOUR CASH AND SECURE YOUR FUNDING

Banks are starting to lend again. If you need finance to meet your strategy, be ready. Update your business plan now.

HAVE THE RIGHT TEAM IN PLACE

Have you got the right skills to grow your business? If you have had to make redundancies, is it time to think about bringing in new resource?

BUILD A SUSTAINABLE BUSINESS

Successful businesses of the next 10 years will look very different from those of the last decade. Will people still want your service or product in the next 10 years?

UNDERSTAND AND MANAGE THE RISKS IN THE NEW ENVIRONMENT

What are the risks facing your business now? Have they changed and how can you mitigate them?

If you want more information on any of these topics, go to icaew.com/economicrecovery