

MINUTES



ICAEW Regulatory Board

DATE & TIME: 09 June 2022, 10 am
LOCATION: CAH Boardroom + Zoom
CHAIR: Philip Nicol Gent
VICE CHAIR
SECRETARY: Tracy Stanhope

ATTENDEES

BOARD MEMBERS

STAFF

Andrew Goldsworthy
Ann Wright
Annette Lovell
Anthony Pygram
Asif Patel
Caroline Turnbull-Hall
Claire McManus
Jonathan Williams
Parjinder Basra
Richard Thorpe
Thomas Palm

Duncan Wiggetts
Mathew Downton
Elaine Griffiths
Claire Phillips
Peter James
Emily Healy-Howell
Sarah-Jane Owen

APOLOGIES

GUEST Michael Izza

ITEM DETAILS

1. Welcome and apologies

It was confirmed that there was parity of lay/non-lay at the meeting as required by the IRB's terms of reference.

The chair welcomed four new members of the IRB. Annette Lovell, Claire McManus, Caroline Turnbull-Hall and Richard Thorpe. Each of the new members, existing members and staff members gave a brief overview of who they were and their background.

2. Declarations of interest

The chair declared one new conflict, Crowe U.K. LLP, a firm registered to carry out audit work by the ICAEW have become the auditors of the Royal Aeronautical Society of whose Audit Committee he is member.

The chair also informed the IRB members that he had attended the new ICAEW president's dinner, and had made a charitable donation equivalent to the cost of the hospitality provided.

3. To approve the minutes of the previous meeting

The minutes of the meeting held on 21 April were approved by the IRB, subject to the following amendments:

- To note that progress reports on the insolvency issue should be included in the action tracker.
- That in the finance update the deficit minuted should be £1.5m and not £15m.
- It should be clarified that the governance route for the decision to pay ICAEW members of committees and the IRB and to increase the sums currently paid, was that whilst the IRB approved funds being made available to pay chartered accountants, decisions on remuneration was a matter that was delegated to RCAC.

The IRB also approved the confidential minute.

4. Matters arising from the minutes not dealt with elsewhere

The Chair informed the IRB that time pressures meant it had not been possible to circulate the final version of the annual report around the IRB members before it had been presented to Council.

The Legal Services strategy would be circulated to the IRB members out of meeting for approval.

Duncan Wiggetts informed the IRB that ICAEW Board agreed to the compensation scheme being funded from ICAEW reserves on two conditions:

- that PSD continue to look for an alternative insurer for the scheme.
- The IRB was requested to conduct a review as to whether ICAEW should continue as a legal services regulator and expand ICAEW's remit in legal services. An extract of the Board minutes would be requested from the secretary of ICAEW Board so that the IRB was clear as to the scope of the review that ICAEW Board was anticipating.

It was agreed to form a Legal Services Subgroup to take this forward and report back at the October IRB meeting. The volunteers were sought to refresh the membership of the existing Legal Services sub group which will now comprise: Anthony Pygram, Jon Williams, Ann Wright, Claire McManus. Emily Healy-Howell will be the PSD lead contact.

5. Chief Executive Update to the ICAEW Regulatory Board - Michael Izza

Michael Izza gave a presentation focussing on the vision, strategic foundations and strategic themes of ICAEW.

Michael Izza then invited the IRB to raise any questions that they had.

Amongst other things, the IRB raised:

The challenges faced to ICAEW's existing governance structure, the role of the IRB and whether the IRB's terms of reference would be reviewed. Michael informed the IRB that the Financial Reporting Council (FRC) had confirmed in 2021 that they were content with ICAEW's governance structure. If the Legal Services Board sought further changes there would have to be further consideration of whether ICAEW should remain in the legal services market.

The impact of the Business Systems Transition (BST) project on Professional Standards Department (PSD) and its operations and the critical fixes to its systems that PSD needed for the department to operate effectively,

The governance of the BST project

The cost of living crisis and how it could change professionals' behaviour for the worse. Michael informed the IRB that the feedback he was receiving was that Chartered Accountants are working at a capacity, their concern is the cost of employment. Members who work in business are also in demand. The environment was not as challenging as financial crisis 2008/9.

Trust in the profession. Discussion had been had with the FRC and government. The FRC's view is that audit quality in the UK is good, and there were only around 3% of audits where opinion is questionable.

Michael informed the IRB that he was holding a meeting with the project lead that afternoon to discuss the outstanding issues around BST. He informed the IRB that from his perspective there was no bar on further resource being made available for the project. He suggested that it may be beneficial for the Chief Operating Officer and Chief Financial Officer to attend an IRB meeting to discuss BST in more detail.

The chair and Michael agreed that it would be beneficial to invite Michael to attend an IRB meeting every year.

6. Review of action tracker

The IRB discussed the action tracker. The following matters were noted during the discussion:

- As the August IRB has been cancelled some target dates in the tracker have been moved from August to October.
- A subgroup of RACAC has met to develop an appraisal process for committee members and high level principles agreed. The appraisal process for IRB members is included on the agenda for the RACAC meeting being held on 30 June. The IRB Chair will liaise with the RACAC chair to establish a time line for the appraisal system for IRB members.
- The committee observation programme is on target. There will be an opportunity to discuss the QA process and whether it remains a suitable approach at the Quality Assurance meeting in September.
- There is an annual reporting requirement from the Regulatory and Conduct Appointments Committee (RACAC) to the IRB to be fulfilled.
- As noted above, progress reports on the insolvency issue should be included in the action tracker
- The annual report should be included in the forward look

7. Chair's update

The Chair provided an update to the IRB members:

He and Duncan had met Dawn Dickson of the FRC and Dawn had been invited to the October IRB meeting.

He had also met with Michael Izza and Will Brooks, and presented the IRB's annual report to Council on 8 June. He had spoken to Philip Rycroft of the Institute of Chartered Accountants

Scotland (ICAS) and is looking to meet with his opposite number at Chartered Accountants Ireland (CAI) as well.

He and Michelle Giddings went to a plenary session of the Group of International Finance Centres Supervisors and presented All Too Familiar and engaged with some of the offshore regulators in the Anti Money Laundering (AML) space.

8. PSD Chief Officer's update

The status of the paper was confirmed as confidential.

Duncan Wiggetts highlighted certain additional matters which occurred since he had prepared his update paper:

He highlighted that from his own perspective and that of the PSD senior management team, the IRB's focus should be on governance.

Feedback statement

BEIS have indicated that it will be a struggle to produce a fully formed Bill containing all the recommendations by March 2023 and they will only have access to parliamentary draftsmen in December and January.

ICAEW's counterproposal for insolvency regulation and what may come out of Her Majesties Treasury's (HMT) plans as regards AML supervision would require change to ICAEW's governance arrangements.

Peter James was drafting a paper the Feedback statement which will be circulated to the IRB out of meeting.

Revocation of the 2016 Ministerial Direction

Duncan had met with Dawn Dixon of the FRC to discuss the proposed amendments to the Delegation Agreement and the FRC and the response provided jointly by the RSBs. (Comments were provided by 31 May deadline).

The new delegation agreement will need to be signed off by the RSBs before the IRB meeting, and the IRB agreed that the agreement should be reviewed by the IRB chair out of meeting and shared with the IRB members for information.

Carillion fines.

The IRB discussed the impact of the fine being levied against the KPMG audit junior and the knock on effect on the attractiveness of audit as a profession. For the benefit of the IRB, Duncan Wiggetts noted that the FRC's tribunal decision had yet to be published and only then would the true level of the financial sanction be known.

AML

The HMT report on the effectiveness of AML supervision will be published on 22 June. Michelle Giddings has been asked to arrange a pre briefing meeting of the Accountancy AML Supervisory group on 20/21st June. The proposals ranged from introducing a new statutory regulator to retaining the existing structure with options between. These included consolidating the number of AML supervisors.

HMT will be looking for feedback in the next two to three months, which would be close to or before the next IRB meeting. It was agreed that the AML project board would feed into the PSD response.

ICAEW's central communications team have been made aware that there will be a need to respond quickly, once HMT announce their preferred option.

Probate Compensation Scheme

Claire Phillips had received confirmation from the Legal Services Board (LSB) on 8 June that ICAEW do not need to make a formal rule change application.

Continuing Professional Development

Duncan gave an overview of the CPD consultation for the benefit of the new IRB members.

Council had approved the CPD proposals. The proposal was now for a soft launch on 1 November with CPD monitoring to commence in 2023. All options for the monitoring process were still being explored. Trevor Smith would be the project manager.

All Too familiar

There have now been 7800 streams of the film 'All Too Familiar' in the first 8 weeks of its launch. Feedback from Council has been good. We have been approached by a number of global training teams by the major international networks. Both EY and Deloitte have agreed to take on licences which will fund another film being made.

Duncan Wiggetts informed the IRB that an all staff PSD awayday was being planned for 14 July. Details would be circulated, should any IRB member wish to attend.

The IRB noted the update.

9. Oral update on BST

The status of the item was confirmed as being confidential.

For the benefit of the new IRB members Matthew Downton provided an overview of the BST project and how Microsoft 365 is replacing systems across the ICAEW. Matthew explained that the old system PRO currently sits alongside Microsoft 365 until fixes and further development takes place. HR have approved a request for 2 new staff for PSD in this area.

Last month annual returns were sent to around a thousand firms without there being any issues with data. The main concern is where data is public facing i.e., the Audit register, Designated Professional Body (DPB) register and Probate register. These aspects of 365 have not yet been switched on, a manual check of the audit records will take place at the end of June.

Last week Elaine Griffiths wrote to the Dawn Dickson at the FRC explaining the ongoing issues and the effect on the Joint Audit Register which is a statutory register. The data flow has not been switched on to the public register. This has been raised with Michael Izza.

The terms of reference to review the project and lessons learned are being discussed with the ICAEW Board.

It was agreed that the IRB chair would write to PSD staff involved in this project to express the IRB's appreciation.

10 Approval of the Disciplinary/Regulatory Handbook

The IRB confirmed the status of the paper as confidential.

Claire Philips introduced the item. Claire informed the IRB that Council had approved the changes to the core Disciplinary Bye-Laws (DBL) on 8 June.

The IRB:

- Approved regulations that will make up the new Disciplinary & Regulatory Handbook, which are intended to take effect on the same date as the Core DBLs.
- Delegated to the IRB Chair and PSD Chief Officer authority to make any minor or drafting amendments that may be required to the regulations prior to the new framework taking place.
- Noted the draft impact assessments which will form the basis for a formal application to the LSB for approval of the changes;
- Nominated a sub-group to have delegated authority to review and approve the draft application to the LSB, along with the consequential changes that will be required to the Probate Regulations, the Probate Compensation Scheme Regulations and the Probate Committee's Terms of Reference
 - The sub group members were confirmed as the IRB Chair, the IRB Alternate Chair and Caroline Turnbull Hall as an accountant member of the IRB
- Nominated a sub-group of the IRB to have delegated authority to approve the consequential changes that will be required to other PSD regulations and guidance, and the Terms of Reference of other PS committees, to introduce the new framework;
 - The sub group members were confirmed as the IRB Chair, Ann Wright, Caroline Turnbull Hall and Claire McManus

The IRB was informed that the next stage is for the DBLs to be taken to the Privy council September/October 2022. Separately an application to the LSB was required for approval of the bylaws, the regulatory regulations, the Fitness to Practice Regulations, consequential amendments to the Probate Regulations, Probate Compensation Scheme Regulations and the Probate Committee's terms of reference.

It was noted that Duncan Wiggetts had produced a note which is available on Diligent, showing that the project had achieved its aims and (subject to best endeavours) all the relevant existing arrangements had been transposed into the new arrangements

The Chair of the IRB thanked Claire and the Chief Officer on the behalf of the IRB for all the work that has been undertaken on this long project.

11 Regulatory and practice assurance fees and levy increase and change proposals 2023

The status of the item was confirmed as confidential.

Matthew Downton introduced this item and gave a slide presentation to the IRB members on PSD finances and budget, including an explanation of timeline for the FRC and Audit Quality Review process and ICAEW budget and process and fee approvals.

Matthew also shared a detailed profit and loss for probate with the IRB which the LSB had requested be shared with the IRB. The role of the IRB is to approve in principle any increase in the probate fee, which then must be approved by the LSB.

The IRB considered the proposals for the regulatory fees for 2023. The IRB discussed the availability of funding for an IRB website and was informed that this was factored into the overheads rather than being funded from the regulatory fees. After further discussion, the IRB decided that there should be more of a contingency built into the budget given the impact of BST and the increasing demands from oversight regulators.

The IRB agreed that an additional 2% increase be added to the fees originally proposed at paragraphs 22 to 25 of the paper, specifically be used to provide budget for more staff as PSD senior management team prioritise and see fit.

As the fee increase proposed is above wage inflation, the increase needs to be confirmed by ICAEW Board. It was agreed that the IRB chair should write to ICAEW Board explaining that this increase is specifically for contingency in staff numbers within PSD.

For probate, the role of the IRB is to approve in principle any increase in the probate fee, which then must be approved by the LSB.

12 Reform of the Professional Indemnity Insurance (PII) Regulations/process

The status of the paper was confirmed as confidential.

Elaine Griffiths together with Claire Phillips presented this item with Sarah-Jane Owen in attendance.

Elaine Griffiths introduced the item. The paper was a culmination of some issues that the PII committee have been seeing over the last 18 months or more due to the hard insurance market and dealing with applications for dispensations from firms that don't fit a traditional structure. Additionally, the PII committee has recommended that a review of the regulations be carried out.

The IRB confirmed:

- a) that a review project should be commenced of ICAEW's PII requirements.

The IRB confirmed that as the PII Committee are the experts in this area, the scope of the review should be decided by the committee. It was noted during the IRB's discussion that the review should consider the public interest and the impact on clients.

- b) that the project should be supervised by the PII Committee with reports and updates being provided by the PII Committee to the IRB for consideration.

The PSD lead contact would be Elaine Griffiths possibly with Emily Healy-Howell. It was confirmed that the IRB would be the ultimate decision maker on the outcome of the review.

- c) that it is satisfied with the proposed interim arrangements and that no interim changes should be made to the guidance in the PII Regulations pending the outcome of the review project;
- d) that an external law firm, specialising in PII, should be instructed to assist with the project and the drafting of the revised PII Regulations.

It was agreed that there should be a light touch tender process around the instruction given the limited number of specialist firms in this area, but also to recognise that there may be conflicts given that certain PII Committee members are employed by these specialist firms.

The IRB agreed that the PIIC chair should be invited to the October IRB meeting to give the IRB an update on the project.

As a side issue to the PII paper, the IRB discussed whether the paper should be confidential. It was agreed that the paper should be considered confidential. It was agreed that for the

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The Chair indicated he would be speaking to the PSD comms team as he would like to adopt a different approach to the production of the annual report.

It was suggested that it would be helpful to obtain some Google analytics on the page views and open rates for the annual report to inform the resource that should be applied to producing the annual report. The IRB also discussed including more forward looking content and moving away from a traditionally structured report. The Chair requested that Matthew Downton share the IRB's feedback with Sarah Gammon with the aim of having a discussion at the October IRB meeting about the structure and content of the annual report, informed by open rate statistics.

The Chair drew the IRB's attention to the Dashboard which was available on Diligent. Matthew Downton highlighted the following from the Dashboard:

- The trend in registrations;
- There are a number of vacancies, but this fluctuates and is being tracked very carefully;

A question was asked about the increase in average time of cases which appeared to be creeping up. Matthew explained that the closed cases is an average over 24 months and the the good work done last year to reduce the number of aged cases will take a while to show in the figure though the number of cases being referred to the Investigation Committee have increased.

It was noted that it was proposed to hold the October 2022 IRB meeting in Manchester.