

A framework of principles

PRACTICE ASSURANCE MONITORING 2020

Contents

AREAS OF FOCUS	2
Conflicts of interest	2
Whistleblowing	4
Payroll	6
2019 THE YEAR IN FIGURES	8
Visit outcomes and analysis of findings	9
Top findings within each key area	10
FUTURE AREA OF FOCUS	14
HELP AND SUPPORT	15

Areas of focus

Our Practice Assurance (PA) scheme provides ICAEW member firms and practising certificate holders with a framework of principles-based quality assurance standards to operate to. Every PA review covers a wide range of areas to consider compliance with relevant laws and regulations. In 2019 we focused on:

- how firms identify, manage and monitor conflicts on an ongoing basis;
- what whistleblowing policies and procedures firms have in place to encourage, raise awareness and monitor speaking up and the reporting of wrongdoing in the workplace; and
- the provision of payroll services, including the nature of services provided, client engagement, acceptance and ongoing monitoring.

CONFLICTS OF INTEREST

Considering whether a firm and/or its staff have a conflict of interest when dealing with a client is core to compliance with the ICAEW Code of Ethics and part of our considerations when we look at how a firm complies with the PA Standard: client engagement and disengagement.

We carried out focused reviews at 195 firms, looking at their policies and procedures in relation to identifying and managing conflicts of interest. These reviews included:

- discussions with the PA compliance principal and/or ethics partner;
- a review of the firm's written policies and procedures;
- whether conflicts are considered as part of the client take-on process; and
- how firms monitored any identified conflicts.

What the firms told us:

'We have no specific procedures. However, everybody has ethics training as necessary and is reminded of their responsibilities regarding conflicts when they complete various annual forms including fit and proper, independence, confidentiality. Client continuance procedures are considered on annual engagements (including non-audit accounts and tax engagements).'

'Conflicts are covered in our induction training for new staff (linked to confidentiality and ethics) but we do not have anything formal in terms of policies and procedures.'

'We do not have formal written conflicts policies/procedures in place, other than a conflict check being emailed to partners and managers at take-on of audit and insolvency engagements.'

'Some of our procedures are embedded in our audit procedures manual and client take-on but no specific policies and procedures for staff.'

'Included in employee handbook which all staff are asked to read on induction and it is readily available to them. It states that all staff are required to comply with ICAEW ethical requirements, whether or not they are an ICAEW member.'

'We have a conflict of interest section in our employee handbook. It is also contained in the operations manuals. These are given to employees when they start. They are also given to employees again during the twice annual in-house training sessions.'

'We consider conflicts on our client take-on forms. We also consider conflicts annually via our staff declaration process. At take-on, sign off is required by a partner if a conflict has been identified. Conflicts are considered for audit clients on an annual basis as part of our proprietary manual at planning. Specifically in respect of payroll, the team are all circulated details of new clients to identify any conflicts. The work is then allocated to appropriate staff and all work on this client is subject to manager review.'

'We safeguard identified conflicts through segregation/separate offices and/or departments, partners and staff. Any identified conflicts are actively monitored by the ethics partner. A log of conflicts is maintained by the ethics partner, extracted from annual declarations and other

known conflicts from knowledge of the client and services that we offer. The log contains comments next to identified issues with appropriate safeguards or any action required.'

'If a potential conflict is identified then one or more of the partners would first consider if we should continue to act for both parties. If it were appropriate to do so then the clients could be dealt with by separate engagement teams and the work carried out at separate offices.'

'All our trainees complete ICAEW's ethics training plus there are lunchtime training sessions for all staff which include reminders on conflicts of interest and the Code of Ethics.'

Key facts

73% of firms said they would introduce relevant safeguards if they identified a conflict of interest, for example by use of separate engagement teams and/or separate offices. **However, only 40% of firms had formal written procedures in relation to identifying and managing conflicts.** From a review of written policies and procedures we identified that:

- only 33% included examples of the types of conflict the firm needed to consider/those common to their business;
- 40% provided guidance on different threats and safeguards and how to identify and manage these;
- only 23% outlined considerations in relation to intra-firm conflicts eg, where the firm or different departments provide more than one service to the same client;
- 36% of policies reviewed included guidance around circumstances where the firm performs services for clients whose interests are in conflict or the clients are in dispute with each other; and
- 35% included guidance around how they monitor conflicts during engagements.

At client take-on, we found 58% of firms had a conflict form or documented their considerations regarding conflicts of interest in other client acceptance templates, for example anti-money laundering (AML) forms or general know your client (KYC) forms. 40% of firms told us that they had declined to enter into a client relationship

when it became apparent they could not sufficiently manage the conflict of interest (usually relating to threats to independence).

Encouragingly, **83% had procedures in place to identify and monitor personal or close relationships between staff and clients**, typically demonstrated by the completion of annual declarations. The majority of firms subject both audit and non-audit staff and principals to the same policies and procedures in relation to independence and 94% told us that all staff complete annual declarations. However, only 62% of firms told us that they have a formal mechanism for monitoring compliance with their own policies and procedures, with **only 28% keeping a log of identified conflicts.**

Hints and tips

You need to draft firm-wide policies and procedures to cover conflicts - don't rely on the staff handbook, annual declarations and client take-on forms to cover this area. Think about it holistically.

Here are a few other areas that you should consider:

- provide staff with some common examples of potential conflicts of interest to watch out for;
- amend client take-on procedures and documentation to include a conflict check across your firm;
- update your procedures to include a conflict check when carrying out a new engagement for an existing client or when an existing client undergoes a significant change in ownership or management;
- update your terms of engagement to include a paragraph on conflicts; and
- provide regular ethics training to staff which covers conflicts

Find out more at [icaew.com/ethics](https://www.icaew.com/ethics)

Remember to update your understanding of the ICAEW Code of Ethics, effective 1 January 2020, section 210 covers conflicts of interest [icaew.com/codeofethics](https://www.icaew.com/codeofethics)

WHISTLEBLOWING

Whistleblowing is when an individual raises a concern about a danger, risk, malpractice or wrongdoing within an organisation, either internally or externally. If you see something you think brings discredit to your profession, you have a duty to report it. If it's a criminal act, that duty can become a legal obligation. Such circumstances would most commonly include strong suspicions of fraud, theft, bribery, tax evasion, money laundering and data protection, but could also cover more general wrongdoing around health and safety or environmental protection, among other things.

Often there is a legal obligation to report suspected wrongdoing, but where there is not, you may be conflicted about respecting your client's confidentiality vs acting in the public interest. ICAEW's new Code of Ethics, which came into force on 1 January 2020, includes guidelines on 'Non-Compliance with Laws and Regulations' (NOCLAR) and offers advice on when you can breach confidentiality and details the specific steps to take.

Your staff should expect to be able to report suspected wrongdoing without recrimination. Those who raise concerns by following the appropriate procedures are assured protection from any resulting dismissal or victimisation by the Public Interest Disclosure Act.

A good whistleblowing policy makes it safe for your staff to report misconduct confidentially and without fear of repercussion. Whistleblowing enables you to take stock and learn difficult lessons; it empowers employees and makes them feel valued and listened to. A good policy inspires confidence not just in your employees, but in your clients and the accountancy profession as a whole.

We discussed whistleblowing in more depth at 192 firms and found 96% promoted an 'open culture' that encourages staff to raise concerns. In their own words, this is achieved by:

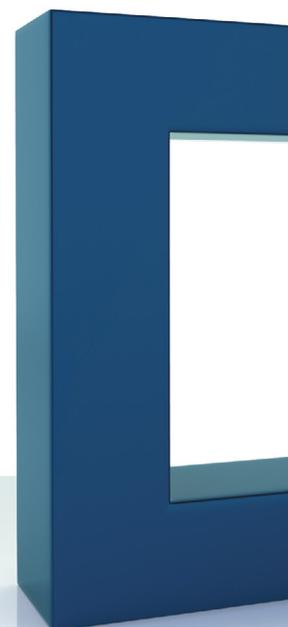
'We have regular office meetings with staff and many of the offices are open plan, promoting an 'open culture'. We also connect with our staff using our intranet, pushing out key messages and through individual office training seminars. Our partners meet regularly with other partners, the management board, risk committee and property committee to keep abreast of what is happening across the firm.'

'We promote open culture via our 'open door' policy to all members of staff.'

'We send out regular emails and use our intranet to encourage well-being and a focus on increased employee engagement. These steps are encouraging an open culture.'

'Partners have an open door policy and encourage staff to discuss issues with them. Staff also feel comfortable discussing issues with the practice manager, particularly issues relating to HR. Our practice manager is also a mental health first aider.'

'Our offices are all open plan including partners in open plan areas. Our managing director sits in the upstairs open plan office, considers himself approachable and interacts with all staff regularly. We have weekly meetings where staff are encouraged to provide feedback on things that are going well, as well as identifying areas for improvement. Staff can give 'thank yous' to other members of staff. Staff can also make anonymous reports about any concerns.'



Key facts

- 67% of firms told us that they were aware of the Public Interest Disclosure Act 1998.
- 63% of firms had written whistleblowing policies and procedures that were clear, concise readily available and easily accessible to staff.
- 26% of managers and senior staff received training in how to handle whistleblowing reports.
- 22% of staff had received whistleblowing training.
- 29% of annual declarations included a statement that staff had read, understood and will comply with the firm's whistleblowing policies.
- 25% of firms had a written investigation procedure.
- 8% of the firms which had known whistleblowing incidents and monitored whistle-blowers' experiences after they had 'blown the whistle'.

Hints and tips

When considering appropriate whistleblowing policies and procedures, you might want to consider:

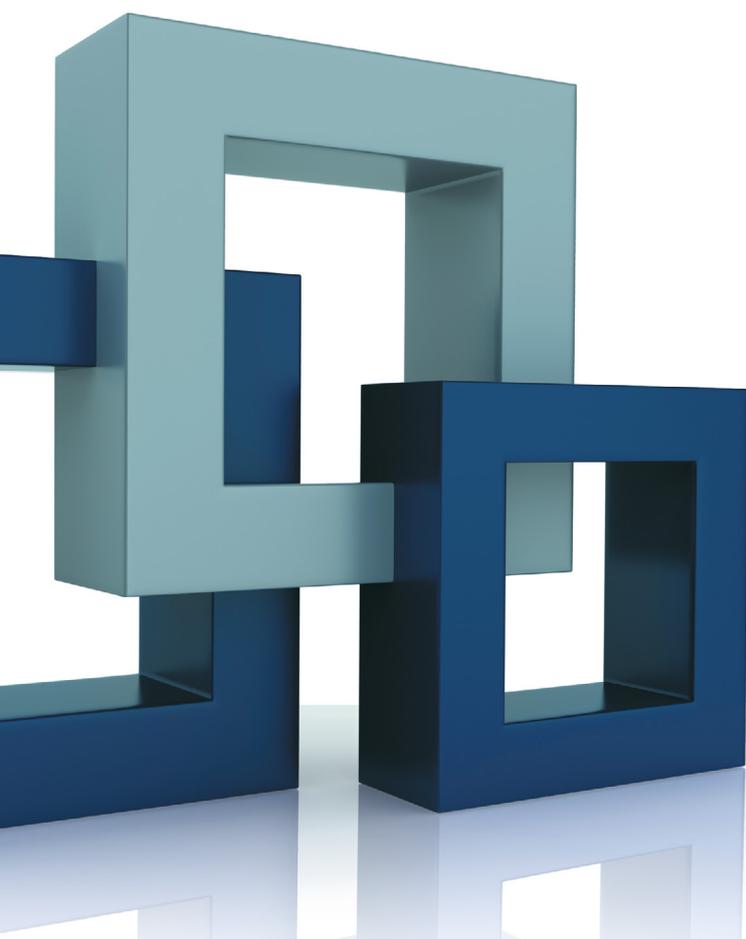
- making them jargon free and easily accessible to staff;
- asking staff to sign an annual declaration confirming they have read, understood and will comply with the whistleblowing policy;
- providing whistleblowing training to staff on raising their concerns;
- providing whistleblowing training to relevant staff on how to deal with whistleblowing reports and other concerns raised to them;
- documenting a written investigation procedure; and
- keeping and monitoring a log of whistleblowing incidents to identify potential themes/recurring incidents.

Find out more at [icaew.com/whistleblowing](https://www.icaew.com/whistleblowing)

Resources include a support members helpsheet: [The Do's and Don'ts of whistleblowing](#) and further articles and guidance such as:

- [How whistleblowing helps companies](#)
- [Whistleblowing benefits](#)

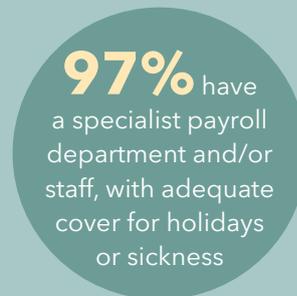
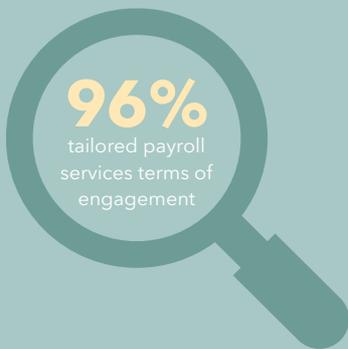
If you would like advice on a whistleblowing issue contact ICAEW's Ethics Advisory Service on +44 (0)1908 248 250 or email ethics@icaew.com. UK members can also contact the charity Protect (formerly Public Concern At Work) on +44 (0)20 3117 2520 or visit [protect-advice.org.uk](https://www.protect-advice.org.uk) for clarification on disclosure protection under the Public Interest Disclosure Act.



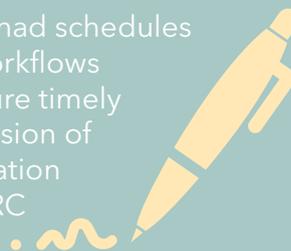
PAYROLL

Payroll services form an integral part of many firms' service line offerings. Over 7,000 firms recorded involvement in the provision of payroll services on their 2019 ICAEW annual return, of which 3,500 had one or more payrolls with more than 20 employees. At 177 firms we took a closer look at the provision of payroll services, 77% of which were operating a payroll bureau ie, providing payroll services to payroll only clients.

GOOD



99% had schedules and workflows to ensure timely submission of information to HMRC



98% told us that payroll data is regularly backed up



94% provided payroll information to the client in a confidential manner



99% held payroll records for more than six years*

81%  told us the same staff process the same payrolls each month

* in accordance with their data protection retention policy

COMMON

74%

payroll staff complete quality control checklists to record timely completion of payroll services



79%

applied initial and ongoing AML client due diligence (CDD) procedures to payroll clients

34% used their own client account to make payroll payments



62%

processed payroll payments for clients

ROOM FOR IMPROVEMENT



66% had a formal payroll procedures manual

19%

expected payroll staff to give HR advice



21%

improvements were required to ensure payroll clients had sufficient AML CDD



38% include payroll files in the sample of cold file reviews or other annual quality control reviews.

21%
were advised to use a designated client account

Hints and tips

You can find further guidance and ICAEW's updated letter of engagement templates, covering payroll services, here [icaew.com/engagementletters](https://www.icaew.com/engagementletters)

2019
*the year in
figures*



VISIT OUTCOMES

The table below is a summary of the key findings and areas of best practice from Practice Assurance reviews carried out by ICAEW's Quality Assurance Department in 2019.

In 2019 we carried out 2,132 Practice Assurance reviews (2018: 2,030).

Delivery method	No matters requiring action (MRA)		Firm addressed MRA with no need for follow-up		Some follow-up needed		Reported to Practice Assurance Committee		Number of firms	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Onsite	19%	16%	56%	61%	19%	16%	6%	7%	1,034	900
Desktop reviews	61%	64%	29%	29%	6%	5%	4%	2%	589	725
New firm reviews	94%	91%	3%	7%	2%	0%	1%	1%	284	226
Telephone reviews	32%	36%	62%	56%	4%	6%	2%	2%	225	179

In 2019 we issued 87 reports to the Practice Assurance Committee (PAC). Below are some of the reasons for those reports.

- Two new firm reviews reported for significant amounts of clients' money passing through the firm's office bank account and a principal practising without a practising certificate.
- Five telephone reviews, three firms that had not addressed matters identified at a previous visit, one without PI insurance and one who did not respond to the closing record.
- 21 desktop reviews, 12 firms failed to address issues raised at the previous visit, five with significant weaknesses in their approach to compliance with MLR17, one ineligible to use the term Chartered Accountant, one providing probate services without a licence, one with a significant gap in PI cover and one for a firm that had not complied with the ICAEW Code of Ethics for referrals to restricted advisers and commissions received.
- The remainder were onsite reviews, the principal drivers for reports to the PAC are noted above, but other reasons behind the reports included lack of cooperation and one firm that had loaned clients' money to its firm's office account.

ANALYSIS OF FINDINGS

The table below shows the number of firms with at least one finding under the regulation heading:

Finding type	No. of firms	% firms	2019 ranking	2018 ranking
Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR17)	991	46%	1	1
Data Protection Act and computer procedures	339	16%	2	3
Clients' Money Regulations	283	13%	3	2
Annual Return	121	6%	4	4
Notifying ICAEW of changes	94	5%	5	6
Ethics	78	4%	6	New entry
Commission received	77	4%	7	8
Professional Indemnity Insurance	74	3%	8	7
Basis of fees and complaints	71	3%	9	New entry
Eligibility	70	3%	10	5
Other isolated findings	377	18%		

Please note that more than one area of non-compliance may apply to a single firm so the numbers overlap.

TOP FINDINGS WITHIN EACH KEY AREA

MLR17

At 461 firms there was either no firm-wide risk assessment or there were significant issues with the firm-wide risk assessment.

Other top findings related to AML client risk assessments and client due diligence (CDD), specifically:

- 460 firms had no procedures in place to keep CDD up to date; and
- 340 firms' AML procedures did not include a requirement to record a risk assessment.

You are required to perform, and document, an assessment of the money laundering risks faced by your firm as a whole, and not just of your clients. This should take into account how criminals might use your customer base, the countries and geographies in which you operate, and the products and services you provide to launder money. Further guidance on how to conduct a firm-wide risk assessment can be found at [icaew.com/moneylaundering](https://www.icaew.com/moneylaundering)

Under MLR17 you have to have a policy in place to assess the money laundering risk of your clients and carry out CDD. CDD includes steps to identify your clients, check they are who they say they are and the source of their funds. The information you need to obtain to confirm identity will depend on the nature of the client and your initial risk assessment. Some firms obtain evidence of client identity but don't link this to a proper assessment of the risk of money laundering. This means they may carry out the wrong client verification checks. You also need to demonstrate to ICAEW, as your supervisor, what CDD you've carried out.

You must keep your due diligence up to date and think about the risk to continuing clients on a regular basis. You need to document your review to be able to demonstrate to us that what you've done is appropriate. Examples of triggers for when you should review the risk of a client are changes in ownership, trade, related parties and location. For simplicity, some firms review a client's risk each year as they work on the client's affairs but if you are providing more regular services (such as monthly payroll) you will need to consider triggers as they arise to mitigate the risk that your firm is being used to conceal the proceeds of crime. You could use [ICAEW's Anti-Money Laundering \(AML\) Service](#) to improve compliance in this area.

Remember when you take on a limited company or LLP as a client, you must check that details of the Persons with Significant Control have been filed with the registrar (ie, Companies House) and report any discrepancies you identify.

Data protection

The main findings in this area related to:

- 152 firms, of which 99 were new firms which had not registered with the Information Commissioner's Office (ICO); and
- 78 firms that had incorrectly registered as a tier one organisation with the ICO. There is a [fee calculator](#) on the ICO's website to help you to calculate your fees. You should contact the ICO as soon as possible if you are incorrectly registered.

Clients' money

Compliance with the Clients' Money Regulations (CMR) remains one of the top areas. We identified:

- 144 firms without a bank trust letter to acknowledge the status of the clients' money bank accounts;
- 79 firms which hadn't carried out and documented an [annual clients' money compliance review](#); and
- 57 firms not using designated accounts when firms held over £10,000 for more than 30 days.

Annual return and notifying ICAEW of changes

Errors in firms' annual return data remains in fourth place in the top findings. When completing your firm's annual return to ICAEW, please be careful to check all standing data. If you find an error in the standing data, let us know what we need to do to correct it. You must notify us of any changes to the structure of your firm within 10 business days. Don't use the annual return for this purpose as you will be in breach of the Practice Assurance Regulations.

Firms not working in the specialist areas of audit, ATOL reporting, DPB (investment business) and probate – please tell our members records team about any changes to your firm structure in writing, by post or email members.records@icaew.com

Firms working in the specialist areas of audit, ATOL reporting, DPB (investment business) and probate – please tell our regulatory support team of any changes to your firm structure within 10 business days via the appropriate forms.

There are two useful forms for this purpose:

- for any changes to your firm structure, please complete and return the standing data changes form; and
- for details of any mergers and acquisitions, please complete and return the mergers and acquisitions application form.

You can find full details of how to notify us of changes, including forms and contact details, at [icaew.com/firmrecord](https://www.icaew.com/firmrecord)

Failure to notify us of changes to your practice can also lead to eligibility issues. To make sure you can use the term Chartered Accountant, are a member firm under the Practice Assurance Regulations and therefore automatically supervised by us for money laundering and to check other eligibility matters, visit our page on maintaining your firm's record, [icaew.com/firmrecord](https://www.icaew.com/firmrecord)

Ethics

Findings relating to ethical matters are a new entry into the top 10 this year. This is predominantly down to matters discussed in line with the areas of focus in 2019 around conflicts of interest and whistleblowing.

Code of Ethics; referral fees and commissions

We identified gaps in accounting for unregulated commission and/or referral fees at 77 firms.

Typically, this is where firms have not told their clients in writing how much they received and/or obtained their consent to retain it.

The ICAEW Code of Ethics, sections 330.12 A1 to 330.14 A1 set out your requirements to:

- notify all relevant clients in writing of the amounts you have received;
- obtain their written consent to retain it; and
- treat the amounts received as clients' money and bank them in a client account until you have permission to retain the money.

For unregulated activities, you could obtain advanced informed consent by having an appropriate paragraph in your engagement letter that includes examples of likely commissions and amounts. However, you will still need to tell the client the amount once received. You should visit [Practice Helpsheets](#) for sample engagement letter wording to help with compliance in this area.

Referrals to financial advisers

It's also important to review the requirements outlined in the ICAEW Code of Ethics, section R331.17 when considering making referrals to financial advisers.

Clients rely on you for objective advice so you should only refer to financial advisers who are in a position to give sufficiently objective advice. This means you need to know whether your chosen financial adviser is independent or restricted by the FCA. To make a referral to a restricted adviser you need to ensure that your client's needs will be addressed appropriately by making an assessment of whether the restricted adviser places business with product providers who account for a large majority of the relevant market, or offer the sector of the market which is most suitable for your client's needs. If you are not confident that you have the knowledge to make this assessment, you should only refer to independent financial advisers. You should also be aware that some types of referral to financial advisers may require a DPB (investment business) licence. For further information read the [Introductions to financial advisers helpsheet](#).

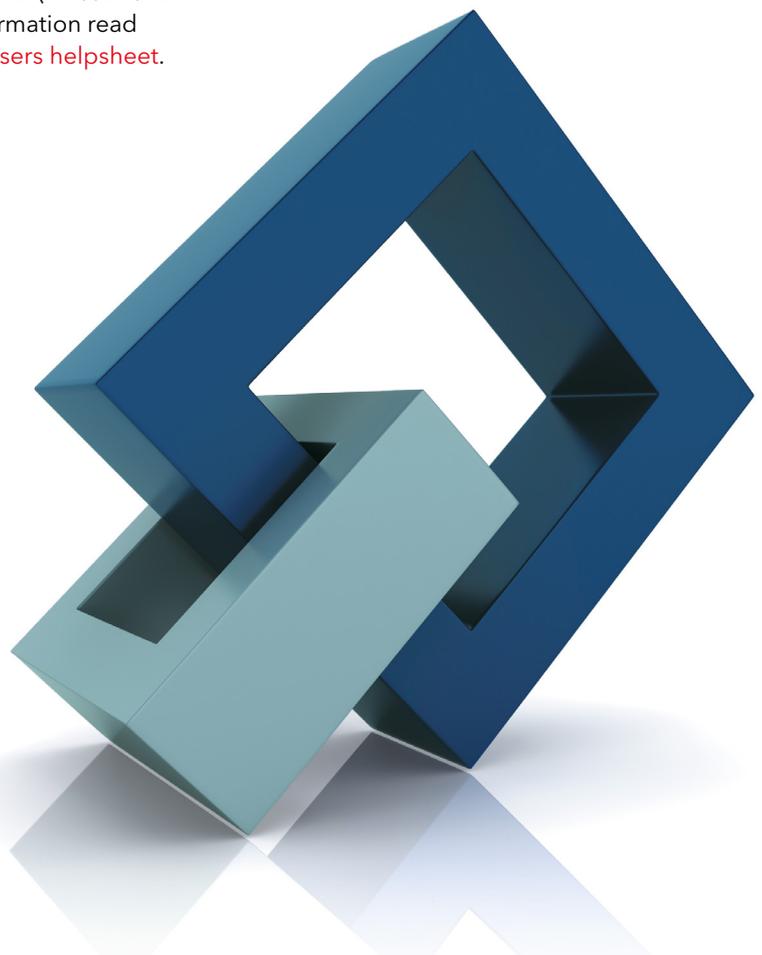
Basis of fees and complaints

Finally, another new entry to the top 10 findings from the visits carried out in 2019, is that at 71 firms we found that they had not informed their clients of the basis on which fees are charged and the complaints procedure, including their right to complain to ICAEW.

You do not have to issue engagement letters to clients, but the above two matters must be communicated to all clients in writing.

You can find a sample engagement letter template at [icaew.com/engagementletters](https://www.icaew.com/engagementletters). If you don't want to issue an engagement letter, you could communicate these matters to clients in any of the following ways:

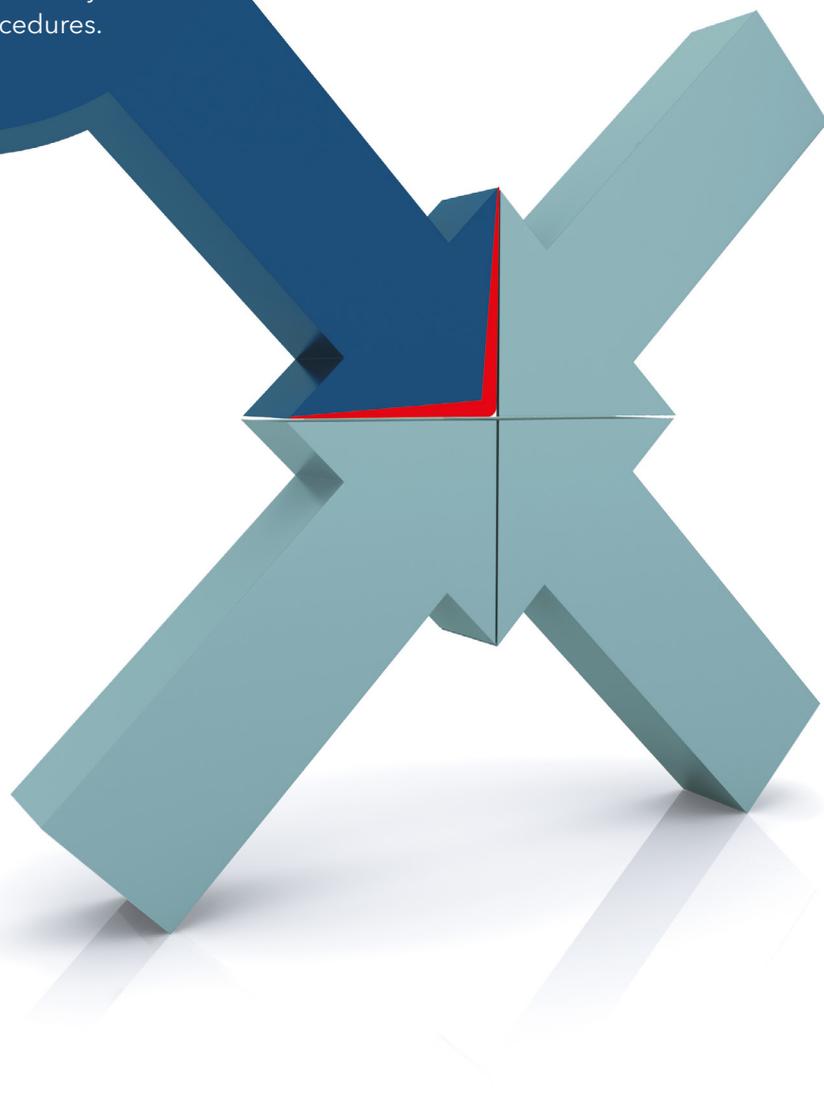
- a standard terms of business letter;
- a brochure given to the client; or
- a paragraph in the body of initial correspondence.



Future area of focus

The area of focus for our 2020 Practice Assurance onsite visits is Professional Conduct in Relation to Taxation (PCRT). PCRT sets out the fundamental principles and standards of behaviours that all members, affiliates and students must follow.

Our visits will focus on how to ensure you have incorporated the requirements of the PCRT guidance into your policies and procedures.



Help and support

There is a broad range of information and guidance available to your firm.

Here's a quick guide on where to find some of our useful resources.

- **Practice Assurance standards and regulations** - [icaew.com/practiceassurance](https://www.icaew.com/practiceassurance)
- **Practice Assurance top tips and guidance** - [icaew.com/paguidance](https://www.icaew.com/paguidance)
- **Practice resources including thought leadership and professional guidance**
- [icaew.com/practiceresources](https://www.icaew.com/practiceresources)
- **Technical, ethical and practical helpsheets** - [icaew.com/helpsheets](https://www.icaew.com/helpsheets)
- **Practice helpsheets** - [icaew.com/practicehelpsheets](https://www.icaew.com/practicehelpsheets)
- **Technical information** - [icaew.com/technical](https://www.icaew.com/technical)
- **Helplines and support** - [icaew.com/helplines](https://www.icaew.com/helplines). You can contact us for specialist help on a wide range of topics including ethical, technical and legislative. In particular, our technical advisory team offer advice on all aspects of complying with the Money Laundering Legislation. Our advisers can answer questions on both:
 - general issues concerning the regulations and reporting suspected illegal activity; and
 - specific issues, which can be discussed anonymously.
- **Courses to help you with your continuing professional development** - [icaew.com/cpd](https://www.icaew.com/cpd)
- **Communities** - [icaew.com/communities](https://www.icaew.com/communities)
- **ICAEW library service** - [icaew.com/lis](https://www.icaew.com/lis)
- **Annual return guidance** - [icaew.com/annualreturn](https://www.icaew.com/annualreturn)
- **Conflicts of interest** - [icaew.com/conflicts](https://www.icaew.com/conflicts)
- **Raise a money laundering concern** - [icaew.com/amlconcerns](https://www.icaew.com/amlconcerns)
- **Whistleblowing** - [icaew.com/whistleblowing](https://www.icaew.com/whistleblowing)
- **Core accounting and tax service** - [icaew.com/bloomsbury](https://www.icaew.com/bloomsbury)
- **Anti-money laundering resources** - [icaew.com/moneylaundering](https://www.icaew.com/moneylaundering)
- **Anti-money laundering supervision** - [icaew.com/amlsupervision](https://www.icaew.com/amlsupervision)

Our role as a world-leading improvement regulator

We protect the public interest by making sure ICAEW's firms, members, students and affiliates maintain the highest standards of professional competency and conduct.

ICAEW's regulatory and disciplinary roles are separated from ICAEW's other activities so that we can monitor, support or take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department and overseen by the independent ICAEW Regulatory Board (IRB).

Our role is to:

- **authorise** ICAEW firms and members to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- **support** the highest professional standards in general accountancy practice through our Practice Assurance scheme;
- **provide** robust anti-money laundering supervision and monitoring;
- **monitor** ICAEW firms and insolvency practitioners to ensure they operate correctly and to the highest standards;
- **investigate** complaints and hold ICAEW firms and members to account where they fall short of standards;
- **respond** and comment on proposed changes to the law and regulation; and
- **educate** through guidance and advice to help stakeholders comply with laws, regulations and professional standards.

Chartered accountants are talented, ethical and committed professionals. There are more than 1.8m chartered accountants and students around the world, and more than 184,500 of them are members and students of ICAEW.

We believe that chartered accountancy can be a force for positive change. So we attract the brightest and best people and give them the skills and values they need to ensure businesses are successful, societies prosper and our planet's resources are managed sustainably.

Founded in 1880, we have a long history of contribution to the public interest and we continue to nurture collaborative global connections with governments, regulators and business leaders. By sharing our insight, expertise and understanding we can create a world of strong economies and a sustainable future.

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