



PRACTICE ASSURANCE MONITORING REPORT 2023



icaew.com/practiceassurance

PROFESSIONAL
STANDARDS
DEPARTMENT

PRACTICE ASSURANCE REVIEWS

Our Practice Assurance scheme provides ICAEW member firms and practising certificate holders with a framework of principles-based quality assurance standards. It outlines procedures to follow with clients and ensures compliance with relevant laws and regulations, including those relating to anti-money laundering and protection of client data.

In 2022, the ICAEW Quality Assurance Department carried out more than 1,500 Practice Assurance reviews of accountancy firms and fully reverted to pre-pandemic review procedures.



CONTENTS

- | | |
|-------------------------------------|---------------------------------|
| 1 Practice Assurance reviews | 9 Most common findings |
| 2 Areas of focus | 12 Future areas of focus |
| 6 Monitoring review outcomes | 12 Help and support |
| 8 Analysis of findings | |

AREAS OF FOCUS

Every Practice Assurance review includes a review of a firm's compliance with the framework, and the relevant laws and regulations. In 2022, our Practice Assurance on-site reviews focused on:

- 1. PROFESSIONAL INDEMNITY INSURANCE (PII)**
- 2. COMPLAINTS**
- 3. CLIENT SATISFACTION**

PII is mandatory for all firms in public practice and we consider the firm's compliance with the PII Regulations on all of our Practice Assurance monitoring reviews. However, during 2022 we held more detailed discussions with some of our larger firms to explore how they consider the relevant risks as part of the renewal process, as well as how they handle complaints and how they get feedback from their clients.



1. PROFESSIONAL INDEMNITY INSURANCE

COVER

98%

had sufficient cover to meet the minimum requirements of the ICAEW PII Regulations, and 99% of firms held this cover with an ICAEW approved participating insurer.

POLICY WORDING

95%

had policy wording that complied with the ICAEW PII minimum policy wording, or the policy included an appropriate 'difference in conditions' clause.

INACCURACIES

7%

had inaccuracies, or had not considered all potential risks, in the PII proposal document.

WHAT THE FIRMS TOLD US:

"We send a questionnaire to each partner and, as part of this, ask if they are happy with the level of cover."

"The board meets with professional indemnity insurers throughout the year to provide any updates on the firm's control environment and risk assessment."

"We refer potential, higher risk engagements to our brokers before making a final decision about take-on."

NOTIFIABLE EVENTS

94%

had a process in place to ensure that all notifiable events are collated centrally and communicated to their insurer.

COMPLAINTS NOTIFIED

86%

of principals were asked by their firm, at least annually, whether they had notified all complaints to the relevant person or department.

2. COMPLAINTS

COMPLAINTS PROCEDURES

DOCUMENTED PROCEDURES

62%

had a documented complaints procedure.

COMPLAINTS PROCEDURE

97%

complied with the requirement to communicate details of the complaints procedure, including the client's right to complain to ICAEW, to the client in writing.

SELF-REPORT AWARENESS

95%

were aware of their obligation to self-report certain types of misconduct to ICAEW.

WHAT THE FIRMS TOLD US:

"If a complaint is significant, or involves a fee dispute, this must be dealt with by a principal. If it is minor and could be easily corrected by the relevant member of staff, then the client manager can deal with it."

"Partner annual declaration forms would identify any items that would need to be self-reported to ICAEW."

DEALING WITH COMPLAINTS

COMPLAINTS HANDLING

69%

had a central team, or individual, that handled complaints.

EXTERNAL LAWYERS

62%

utilised the advice of external lawyers.

INDEPENDENT SERVICE

74%

handled complaints via someone independent of the service line to which the complaint related.

WHAT THE FIRMS TOLD US:

"Partners receive training every year from our insurance broker."

"We will always consult with our external legal advisers before communicating with the client regarding a complaint."

"Initial complaints are handled by the engagement team to try to resolve any misunderstandings or issues more quickly. This will hopefully stop the complaint escalating and maintain the client relationship."

MONITORING COMPLAINTS

MONITORING PROCESS

72%

had a process in place to monitor the progress and outcome of complaints.

CLAIM PROVISIONS

54%

held regular meetings with their professional indemnity insurers and lawyers to ensure claim provision levels were adequate.

ADHERENCE

28%

checked adherence to complaints procedures via internal assurance reviews.

WHAT THE FIRMS TOLD US:

"We have a risk mailbox, which is monitored regularly, to review the progress and outcomes of complaints received."

"We maintain a register of complaints, and this is discussed as a standing item on our board meeting agenda."

"Professional indemnity insurers are notified of each significant complaint, but we also hold regular meetings with them to discuss ongoing cases."

3. CLIENT SATISFACTION

FEEDBACK METHOD

52%

had a method for obtaining feedback from clients, and 37% of these did it via a survey with set questions and scores.

REQUESTED FEEDBACK

35%

requested feedback from all clients.

WHAT THE FIRMS TOLD US:

"Our marketing team sends all clients a client satisfaction survey at least once a year."

"An independent partner conducts more in-depth interviews with our key clients, allowing the client to provide feedback in a fair and representative way."

"Our survey template includes 14 questions, which include quantitative (1-10 scale) and qualitative (free-text answers) sections."

"We have performed some mystery shopping with a third party posing as a potential new client, approaching via email, telephone and in person at the office."

HINTS AND TIPS

- When obtaining PII, or renewing existing cover, ensure you arrange 'qualifying insurance' and check the following points.
 - The insurer is on the list of the current [list of participating insurers](#) (and if the insurance is provided by more than one insurer, that all insurers are participating).
 - The cover meets the minimum limits of indemnity set out in [PII Regulations 3.2-3.7](#).
 - The policy provides cover under terms which satisfy ICAEW's approved minimum wording and includes at least six years' retroactive cover (ie, for claims arising in relation to advice, services and business activities carried out during the last six years).
 - The information included in your proposal is accurate and complete.
- You must give your clients the details of your complaints procedure, including the clients' right to complain to ICAEW, in writing. Most firms do this in the engagement letter.
- It's important to find out what clients think about your firm to help you improve your services, address any problems early on, and build better relationships. You can find more information at [How satisfied are your clients?](#)



MONITORING REVIEW 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 2022.

In 2022 we carried out 1,509 Practice Assurance reviews (2021: 1,243).

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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
On site*	18%	19%	65%	62%	10%	14%	7%	5%	641	488
Desktop reviews of information provided by firms	25%	26%	58%	63%	13%	9%	4%	2%	190	263
Other desk-based reviews	100%	100%	-	-	-	-	-	-	70	186
New firm reviews	99%	98%	-	-	-	1%	1%	1%	315	235
Telephone reviews	26%	25%	67%	66%	4%	6%	3%	3%	293	71

* In 2021, most reviews took place remotely in response to government guidance during the COVID-19 pandemic. In 2022, we fully reverted to our pre-pandemic review procedures and the majority of reviews took place at the offices of firms.

In 2022, the Practice Assurance Committee considered 45 reports (2021: 24 reports). Some of the reasons for these reports are listed below.

MONEY LAUNDERING

17

had significant weaknesses in complying with the Money Laundering Regulations, with some failing to fulfil assurances provided at the previous review to improve their procedures. In some cases, they also failed to fully comply with Clients' Money Regulations.

CLIENTS' MONEY REGULATIONS

4

had significant breaches of the Clients' Money Regulations.

NO RESPONSE

7

did not respond to the findings raised at our review.

USE OF DESCRIPTION

5

used the description 'Chartered Accountants' when they were not eligible to do so.

PRACTISING CERTIFICATE

3

cases related to ICAEW members being in public practice without a practising certificate.

PROFESSIONAL INDEMNITY INSURANCE

4

had significant gaps in their professional indemnity insurance.

HINTS AND TIPS

- Review the points raised at your last Practice Assurance review and ensure you have taken action to address all the issues. Failure to address issues raised at the previous review is a common reason for firms being reported to the Practice Assurance Committee.
- Use the wide range of [resources](#) available for AML supervised firms on the ICAEW website to help ensure that you are fully compliant with the Money Laundering Regulations.
- If you hold clients' money, ensure that you are familiar with the [Clients' Money Regulations](#) and have robust procedures to comply with them.
- Review the eligibility of your firm to use the description 'Chartered Accountants', especially if your principals and/or shareholders have changed.
- View our [Practice Assurance compliance review helpsheet](#).

The Practice Assurance Committee issued penalties of between £245 and £11,200 to 19 of these firms, and 17 were referred to ICAEW's Conduct Department for further investigation.



ANALYSIS OF FINDINGS

The table below shows firms with at least one finding that relates to non-compliance with regulations. The list is very similar to last year. We therefore strongly recommend firms look carefully at this list, the relevant regulations and the resources identified below to ensure they are not making similar mistakes.

Finding	No. of firms	% firms	2022 ranking	2021 ranking
Money Laundering Regulations	545	36%	1	1
Clients' Money Regulations	197	13%	2	2
ICAEW records and annual return	176	12%	3	4
Basis of fees and complaints, and engagement letters	164	11%	4	3
Referrals and commissions	107	7%	5	6
Eligibility	78	5%	6	8
Professional indemnity insurance	65	4%	7	7
Data protection	52	4%	8	5
DPB (Investment Business) boundary issues	49	3%	9	=10
Notifying ICAEW of changes	21	1%	10	=10
Other isolated findings	64	4%		

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

MOST COMMON FINDINGS

Alongside each finding, we have listed examples of ICAEW resources or other guidance that we recommend firms use to improve compliance in these areas.

Finding	What we find	Resources to support compliance
Money Laundering Regulations	We publish an annual report on anti-money laundering (AML) which explains the findings from our monitoring reviews together with information on our regulatory role and how we fulfil it. We recommend reading the report for a breakdown of AML compliance issues and relevant resources.	AML supervision report AMLbites AML resources
Clients' Money Regulations	<p>Non-compliance with the Clients' Money Regulations remains one of the top areas of concern. We identified that:</p> <ul style="list-style-type: none"> • 96 firms did not have a bank trust letter to acknowledge the status of clients' money bank accounts. • 46 firms had not carried out and documented an annual clients' money compliance review. • 37 firms were not using designated clients' money accounts when holding £10,000+ for more than 30 days. • 26 firms had used their office account to hold clients' money. • 22 firms had held clients' money which did not relate to accountancy services, in breach of Regulation 8A. 	Clients' Money Regulations helpsheet Clients' money FAQs Clients' Money Regulations compliance review checklist
Eligibility issues, ICAEW records, annual return and notifying ICAEW of changes	<p>Finding errors in firms' annual return data and/or ICAEW records is the third highest area of concern.</p> <p>When completing your firm's annual return to ICAEW, please be careful and check all standing data. If you find an error let us know what we need to do to correct it. You should take care to ensure you complete your annual return form correctly. If you are unsure about how to answer any question, you should consult the guidance notes and/or call our helpline +44 (0)1908 546 372.</p> <p>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.</p> <p>How to notify us</p> <p>For firms working in the specialist areas of audit, ATOL reporting, DPB (Investment Business) and probate. We have a series of forms you should use to tell us about changes to principals, offices, trading names, ownership structure and regulatory contacts. Please complete the relevant form(s) and email them to regulatory.support@icaew.com</p> <p>For firms not working in the specialist areas of audit, ATOL reporting, DPB (Investment Business) and probate. Please tell our members information team about any changes to your firm structure in writing, by post or email firms.admin@icaew.com</p> <p>Access full details of how to notify us of changes, including forms and contact details at Your guide to maintaining your firm's record. Visit our page on maintaining your firm's record to check whether your firm:</p> <ul style="list-style-type: none"> • can use the term 'Chartered Accountant'; • is a member firm under the Practice Assurance Regulations and therefore automatically supervised by ICAEW for money laundering; or • to check other eligibility matters. 	Annual return to ICAEW guidance Annual return FAQs Eligibility considerations and case studies Use of the description Chartered Accountants Your guide to maintaining your firm's record

Finding	What we find	Resources to support compliance
Basis of fees and complaints, and engagement letters	<p>We found 164 firms had not informed their clients of the basis on which fees are charged or the firm’s complaints procedure, including the client’s right to complain to ICAEW.</p> <p>You do not have to issue engagement letters to clients, but the above two matters must be communicated to all clients in writing. If you don’t want to issue an engagement letter, you could communicate these matters to clients in any of the following ways:</p> <ul style="list-style-type: none"> • a standard terms of business letter; • a brochure given to the client; or • a paragraph in the body of initial correspondence. <p>We also found issues where firms were not keeping their engagement letters up to date, did not cover specialist services and/or were incorrectly informing clients that they were able to carry out work requiring a DPB (Investment Business) licence when this was not the case.</p>	Engagement letters and privacy notices
Code of Ethics, referral fees and commissions	<p>We identified gaps in accounting for unregulated commission and/or referral fees at 51 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.</p> <p>The ICAEW Code of Ethics, sections 330.12 A1 to 330.14 A1, set out your requirements to:</p> <ul style="list-style-type: none"> • 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. <p>For unregulated activities, you can obtain advanced informed consent by including an appropriate paragraph in your engagement letter that contains examples of likely commissions and amounts. However, you will still need to tell the client the amount once received.</p> <p>You should visit Engagement letters and privacy notices for sample wording in engagement letters to help with compliance in this area.</p>	Engagement letters and privacy notices ICAEW Code of Ethics Introductions to financial advisers
Professional indemnity insurance (PII)	<p>The main findings in this area related to firms being inadequately insured and/or having a policy that did not comply with the ICAEW PII Regulations.</p> <p>You need to make sure your firm’s PII meets ICAEW’s minimum requirements.</p> <ul style="list-style-type: none"> • The cover should be at least two and a half times your gross fee income for the accounting year preceding the start of the policy (subject to a minimum requirement of £100,000 and a maximum of £1.5m). • The policy needs to be with a participating insurer who has agreed to meet the requirements of ICAEW’s minimum policy wording. You can view a current list of approved insurers at icaew.com/pii <p>There were also several findings relating to notifications not being made to the insurers and errors on proposal forms. Both can result in problems should a claim arise.</p>	List of participating insurers Important information about your firm’s PII cover How to avoid expensive PII mistakes webinar recording

Finding	What we find	Resources to support compliance
<p>Data protection</p>	<p>The main finding in this area related to 41 firms that had not registered with the Information Commissioner’s Office (ICO). We also found 12 firms that had still not put adequate procedures in place to meet the requirements of the General Data Protection Regulation (GDPR).</p>	<p>Information Commissioner’s Office registration UK GDPR guidance and resources ICAEW data protection and privacy guidance</p>
<p>DPB boundary issues and referrals to financial advisers</p>	<p>We found issues relating to referrals at 89 firms.</p> <p>Clients rely on you for objective advice so you should only refer to financial advisers who are able to give sufficiently objective advice. This means you need to know whether your chosen financial adviser is independent or restricted by the Financial Conduct Authority (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.</p> <p>You should also be aware that some types of referrals to financial advisers may require a DPB (Investment Business) licence. It’s also important to review the requirements outlined in the ICAEW Code of Ethics, when considering making referrals to financial advisers.</p>	<p>ICAEW Traffic Light Guide to Investment Business Activity Introductions to financial advisers DPB (Investment Business) webinars Referrals to financial advisers: staying compliant article ICAEW Code of Ethics, section R331.17</p>

FUTURE AREAS OF FOCUS

Our area of focus for 2023 Practice Assurance on-site reviews is anti-money laundering (AML). In addition to our routine AML monitoring procedures, we will also cover:



**THE ROLE OF THE
MONEY LAUNDERING
REPORTING OFFICER**



**FIRM-WIDE RISK
ASSESSMENTS**



SANCTIONS



**PROHIBITION OF
ACCOUNTANCY
SERVICES TO RUSSIA**



**SUSPICIOUS
ACTIVITY REPORTS**



**CLIENT DUE
DILIGENCE**

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](#)
- [Practice Assurance top tips and guidance](#)
- [Practice resources including thought leadership and professional guidance](#)
- [Technical, ethical and practical helpsheets](#)
- [Practice helpsheets](#)
- [Technical information](#)
- [Regulatory & Conduct News](#)
- [ICAEW communities](#)
- [ICAEW library service](#)
- [Annual return guidance](#)
- [Raise a money laundering concern](#)
- [Bloomsbury core accounting and tax service](#)
- [Anti-money laundering resources](#)
- [Anti-money laundering supervision](#)
- 2022/23 Anti-money laundering supervision report (coming soon)

Continuing professional development (CPD)

- [Courses](#)
- [CPD for firms](#)

Contact us

You can contact us for specialist help on a wide range of topics including ethical, technical and legislative issues. Our technical advisory team offer advice on all aspects of complying with the Money Laundering Regulations. 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.

Or visit [icaew.com/helplines](https://www.icaew.com/helplines) for our contact details.

ICAEW's regulatory and conduct roles

Our role as an improvement regulator is to strengthen trust in ICAEW Chartered Accountants and firms. We do this by enabling, evaluating and enforcing the highest standards in the profession.

ICAEW's regulatory and conduct roles are separated from ICAEW's other activities through internal governance 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 (PSD) and overseen by the ICAEW Regulatory Board (IRB).

We:

- **authorise** ICAEW firms, members and affiliates 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. ICAEW represents more than 202,450 members and students around the world. All of the top 100 global brands employ chartered accountants.*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is the first major professional body to be carbon neutral, demonstrating our commitment to tackle climate change and supporting UN Sustainable Development Goal 13.

We are proud to be a founding member of Chartered Accountants Worldwide, a network of 750,000 members across 190 countries which promotes the expertise and skills of chartered accountants around the world.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

www.charteredaccountantsworldwide.com
www.globalaccountingalliance.com

* Includes parent companies. Source: ICAEW member data March 2023, Interbrand, Best Global Brands 2022

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ICAEW is
carbon neutral