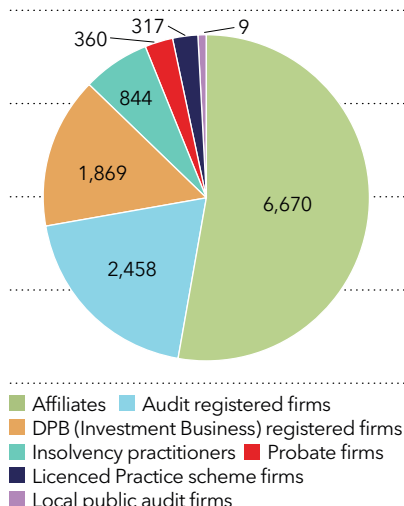
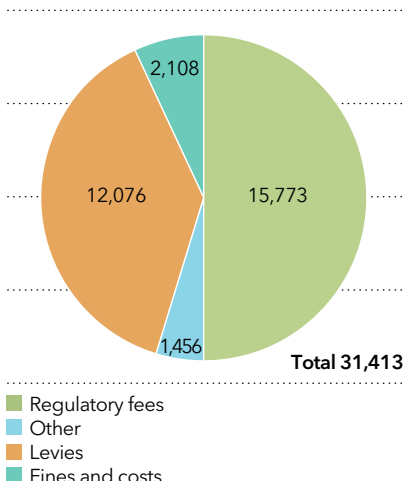


PROFESSIONAL STANDARDS DEPARTMENT FINANCES 2021

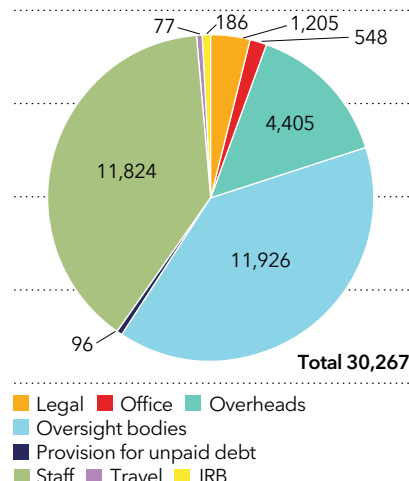
Registered Firms
full year 2021



Income Analysis £,000
2021 full year actuals



Cost Analysis £,000
2021 full year actuals



The Professional Standards Department (PSD) budget represents the department’s wide range of activities i.e., self-financing regulation and Practice Assurance scheme, the net cost of member-related discipline, margin generating products and services and, from time to time, investments in programmes of work in new areas. The self-financing strategy (sometimes called ‘user pays’) remains in operation in the regulatory and Practice Assurance area, whereby income is targeted to match expected cost. To note, there is no budget subsidy to the regulatory and Practice Assurance activities from ICAEW membership subscriptions.

The operational plan addresses the challenge of income and cost opportunity and threats, change and increased expectations and the required funding of oversight bodies and fellow regulators, investment and, crucially, to provide sufficient resources to:

- work in the public interest;
- carry out statutory and regulatory functions;
- deliver a range of services and initiatives as an improvement regulator; and
- explore new practice and educational opportunities.

LEVIES WE COLLECT ON BEHALF OF OTHER ORGANISATIONS

The PSD regulatory budget also includes levies. These are used to source funding for the operation of bodies including, e.g., the Insolvency Service, the insolvency complaints gateway, Office for Professional Body Anti-money Laundering Supervision, Financial Reporting Council Operations and Conduct Committee and Financial Reporting Council conduct case funding. The levies also facilitate the operation and funding of the investment business and reserved legal services compensation schemes.

COMPLAINTS

The cost of member discipline (non-statutory complaints) is included in the budget and results of PSD.

While not part of PSD budget, at an ICAEW level, membership subscriptions contribute to the funding of this cost.

Costs relating to conduct have been growing at a rate ahead of inflation in recent years, reflecting a sustained number of complaints and a generally more litigious and societal blame culture.

THE PSD BUDGET CATEGORIES

The budget is described by income and cost type and also by functions and reported in this way for management control purposes:

- regulatory (sub-divided into registration areas such as audit and insolvency).
- member discipline.
- contracts and products.

THE PSD FINANCIALS

There are four main income and cost areas:

- income generated from regulatory registration and application fees and contract charges;
- levies on firms and individuals, to fund oversight organisations and compensation scheme arrangements;
- operating costs; and
- overheads including property, utilities and shared systems and processes.

PSD also receive fines and associated recovery of costs incurred.

The following year's draft budget is produced for the June ICAEW Regulatory Board (IRB) meeting. The budget sets out the principles related to income generation and underpins any fee and/or levy increase proposals for the IRB to review, change where applicable, and approve.

The department operates with a strong sense of, and commitment to, financial stewardship, the self-financing model and budget targets.

We understand that we operate in a competitive environment and that regulatory fees are a cost of operation for registered firms, individuals and, therefore, for their customers.

2021 FINANCIAL RESULTS

The regulatory areas met the self-financing target and, along with exceptional regulatory fines and cost reductions (related to COVID-19 imposed limitations), generated a surplus.

As anticipated, volumes of firms registered for audit and investment business, and individuals in the Practice Assurance scheme fell, but not by as much as estimated. New registrations were

higher than estimated. These elements played a part in exceeding the self-financing target. The longer-term financial strategy and operating model take these market pressures and changes into account.

The cost base is considered to be well managed. Operating costs are largely made up of staff who are actively responding and meeting statutory and regulatory requirements.

Oversight body activity, and therefore operating costs, has increased at the Financial Reporting Council, and levies on audit firms are rising accordingly.

While poorly behaving ICAEW members remain a small minority, the number of new matters remains high, close to 1,000 which is in line with the volumes seen in 2020.

2022-2024

Financial planning reflects a busy and ambitious department. There are risks, such as those related to COVID-19 and the cost of conduct investigations, but also opportunities, including the potential for new areas of regulation, contract work with fellow regulators and other bodies and those afforded by educational training films.

2022 regulatory fee increases recognise pressure of general cost and wage inflation, the challenges faced by smaller firms and the cost of regulation, and an ongoing commitment to cost reduction through continuous improvement, new systems and processes and virtual ways of working.

The 2022 budget and income and cost projections for 2023 and 2024 are considered pragmatic, particularly considering the economic damage due to COVID-19.

Risks to achieving our financial strategy and mitigating actions have been put in place to secure appropriate future income to be able to discharge PSD's regulatory duties. Progress and change will be monitored regularly.

Financial plans, including project proposals and business cases, will be reviewed by the IRB.

A 2023 budget and fee proposal will be presented for review and approval mid-2022.