

# Chief Officer Report November 2024 (Redacted)

 **READING TIME:** 15 mins

 **ACTION:** To note



## FRAMING

### Context

This report provides an update to IRB members on developments in the key areas of PSD's work in regulated and unregulated areas, PSD's disciplinary work and an overview on developments within PSD.

It will be supplemented by an oral / slide presentation at the meeting on confidential matters referenced in Section 3.

### Questions to the reader

1. Does this report provide you with sufficient information about recent relevant developments (internal and external)?
2. Do IRB members have any comments to make or questions to ask in relation to any development mentioned in this paper?

## THE PAPER

### 1. What are the key developments in our regulatory areas?

#### AUDIT

##### ARGA legislation

1. Two meetings have taken place in November in relation to the intention of the new Government to introduce legislation in 2025 to create ARGA. The first meeting on 5 November was chaired by Jonathan Reynolds, the new Secretary of State for Business and Trade, and Justin Madders, the new Minister in that department whose remit covers audit, accountancy and insolvency. Invitees included representatives from all of the UK professional bodies and the largest UK accountancy firms. ICAEW was represented by CEO, Alan Vallance, and Reputation & Influence director, Nigel Sleigh-Johnson. There was only a limited period of time for each to contribute. ICAEW reps made clear ICAEW's support for the corporate governance reforms, most of the audit reforms but our objection to the proposal new accountancy oversight powers (in line with our consultation response).

2. The second meeting took place on 8 November between directors in the Reputation & Influence department and our political team with Matilda Curtis, a Deputy Director in the Department of Business & Trade, who has a senior role in piloting the proposed legislation through Parliament.-  
[REDACTED]

### **Audit eligibility / super majorities**

3. A regular stream of feedback is now being received by the Regulatory Practice team on the changes made to the Audit Regulations earlier this year in relation to 'super majorities'. The changes come into effect from 1 April 2025 and require a majority of voting rights in the audit firm to be held by audit-qualified persons. Changes were made at the request of the FRC to make the Audit Regulations consistent with the Companies Act to the definitions of 'majority' and 'voting rights', which have been clarified as being the rights to approve all decisions concerning the policy or constitution of the firm. While the survey carried out by the team of c. 60 of the largest audit firms suggested that issues with compliance were limited to a few of those firms, issues seem to be more prevalent among smaller firms.
4. It appears that many smaller firms had not appreciated that 'majority' did not just mean a simple 51% majority, but means whatever percentages are specified in their governance documents. For example, if a firm had policy or constitutional matters that require approval by 75% of voting members, then at least 75% of voting members must all be audit-qualified.
5. We have received feedback from firms about the practical implications this may have and how easy, practical or sensible any solutions are. For example, one solution could be for a firm to hive-off its audit practice into a separate legal entity that is majority-controlled by audit qualified persons, with service agreements in place for sharing of staff and other services. However, the Regulatory Practice team must then review all these agreements to make sure there is no 'artificiality' involved, and that the audit firm is genuinely independent from the main practice, which can sometimes be challenging for the firm to evidence.
6. We have also heard anecdotal evidence that some smaller firms may use these changes to the Regulations as the deciding factor on whether they continue to hold audit registration or not which is concerning with the number of registered audit firms likely to fall below 2,000 for the first time during the renewal period at the end of the year.
7. Some firms and groups/networks of larger firms have voiced concerns at ICAEW Council and to the ICAEW Board Chair and CEO who have both asked PSD senior managers and the IRB to consider whether there is a need now to lobby for changes to be made to the current Companies Act's requirements to reflect the decreasing percentage of audit in many firms' revenues and number of principals, potentially even with the chance of asking for amendments to be included within the ARG bill. We are currently debating possible solutions internally and will want to discuss any possible changes with the FRC whose support will be important if any change is to be made.
8. In the meantime, PSD's communications team continues to highlight the upcoming changes through all our channels and alerts.

### **Private equity investment**

9. A small number of firms of various sizes have reached out to the Regulatory Practice team since the previous IRB meeting, to discuss plans to sell a stake in their firm to private equity investors. Some of these are at early stages, some more advanced. Elaine's team is working with each firm to understand the proposals and timeline and what additional registrations may be required post-investment.

10. Given that we are now seeing a constant stream of enquiries and transactions and some can take up a considerable amount of senior staff time in meeting with firms and advisers and reviewing voluminous governance documentation, we will be introducing a new charging system for firms seeking regulatory approvals to new structures following a merger, acquisition or change of ownership due to external capital investment.

### **Interaction with the FRC**

11. The following matters were discussed at the latest quarterly registration meeting:

- The FRC's updated [registration protocol](#) has been issued. This is an appendix to the delegation agreement between ICAEW and FRC and sets out the sharing of information between the FRC and the RSBs for the purposes of the FRC's PIE audit registration tasks. RPP, QAD and ARC fed into the consultation process on the proposed changes
- The context behind Richard Moriarty's [letter](#) of 26 September 2024 requesting that "a firm that is interested in, or considering a change of ownership to introduce private capital, should engage with the FRC (in addition to the RSB) at an early stage" and whether the expectation was on all firms, or just PIE-registered firms. [It has now been confirmed that only PIE audit firms must consult with the FRC.]

12. I took part in a quarterly update call with Helen Henshaw of the Professional Bodies Supervision team on 7 November. We discussed the following matters; impasse on JAR issues, reaction to audit eligibility changes, the FRC's proposed involvement in PE firm investments, the timeline for further Audit Regs' changes re reporting unusual audits and the regularisation of contact points between ICAEW and FRC PBS.

13. Sarah Brook and I took part in the FRC Roundtable on Enforcement on 12 November with representatives from the FRC and all other Recognised Supervisory Bodies. Topics under discussion were the right respondents to an audit complaint (the audit firm or the RI or both), the use of interim orders, professional behaviour complaints and vexatious complaints/complainants.

### **Local public audit**

14. In June 2022 the FRC issued updated [guidance](#) for local audit firms on the routes available for individuals to become key audit partners (KAPs). One of the routes allowed a responsible individual with experience in corporate audit to become a local audit KAP, subject to certain criteria, which included undertaking training pre-approved by the FRC. To-date, no applicants have taken advantage of this route, as no training has been approved by the FRC. However, on 13 November, the FRC issued the criteria for training providers to meet in order for their training to be approved as local audit specialist training and therefore relevant for KAP applications. Training providers and professional bodies can now apply to the FRC to approve one of their courses/training programs, which should then open up the pathway for experienced RIs to apply to become KAPs.

15. Elaine's team have held various meetings with the FRC on how to support this process and the RPP team is preparing a new application form and FAQs with a view to accepting new applications from early-2025.

### **FRC information request and regulatory plan 2025**

16. We received on 8 November the annual return from the FRC for completion and return by 31 January with a request also to receive ICAEW's regulatory plan on the same date. Work is now under way on these request and is being led by Caroline Turnbull-Hall.

## Audit Regulations changes re reporting unusual audits

17. Whereas we had intended to bring a paper to this board with the final wording of the new requirement to be inserted into the Audit Regulations for approval, this has had to be deferred due to more time being needed to get joint approval from ICAS and CAI who jointly own the audit regs. Sophie will update on this orally when she joins the meeting for her regulatory update paper.

## INSOLVENCY

### Insolvency Service roundtables

18. Bob Pinder, Sophie Wales and I attended the latest Insolvency Service policy roundtable on 13 November. We heard updates from the IS policy team on their meetings with Ministers to discuss the prospect of insolvency reform legislation being included within the ARGAs bill.
19. The IS Head of Policy is increasingly confident that there will be insolvency-related legislation drafted into the bill and that this will include the change of the insolvency regulatory framework from being focused on individuals to be focused on individuals and firms. [REDACTED]

### IVA mis-selling report

20. On 17 October, the Insolvency Service published the research it had commissioned into the possible mis-selling of IVAs by insolvency practitioners and 'IVA factories'. [REDACTED]
21. During September and October, QAD's insolvency team has put on four insolvency webinars. Over 2,000 registered for these free events with 1,300 tuning in live. The events which are recorded for those unable to attend on the day covered:
- Ethics
  - Legal update
  - Compliance update
  - QAD common findings

## LEGAL SERVICES

### IGR review and meetings

22. Following the discussion at the September IRB meeting, an IRB response to the LSB's evaluation of the Internal Governance Rules was submitted after being approved by Paul and members of the legal services sub-group.
23. Subsequent meetings took place on 10 October between me and Craig Westwood, the new LSB CEO, and then on 28 October between Paul Brooks and Alan Vallance from ICAEW, and Craig Westwood and Alan Kershaw (LSB Chair) which discussed the importance of IGR reform from ICAEW's perspective among other matters.
24. We do not know when we will find out whether the LSB will change any of the IGRs or the timetable for reporting to regulators. We cannot progress the application for approval of the final governance changes until the results of the review are announced and only if changes are made to give the application a chance of success.

### Regulatory Performance Assessment

25. The Regulatory Policy team submitted our response to the LSB Annual Regulatory Performance Assessment information request by the deadline of 15 November. The final draft response was reviewed by the IRB chair, Deputy Chair and members of the legal services sub-group. The LSB has acknowledged receipt of the submission, and we await any queries or initial feedback from the LSB.

### LSB consultation on legal regulators' responsibilities in helping fight economic crime

26. The LSB has recently published a consultation on how legal regulators can help the fight against economic crime. The regulatory policy team will be responding to the consultation (which closes on 7 February 2025) in collaboration with our Head of AML, Michelle Giddings. It is clear already that there is some duplication here between the work already expected of us by OPBAS and what is being suggested by the LSB.

### AML

27. On 23 September (days after the last board meeting) OPBAS published its most recent inspection report [Anti-Money Laundering Supervision by the Legal and Accountancy Professional Body Supervisors: Progress and themes from our 2023/2024 supervisory work](#) . It related to inspections carried out at only 9 of the 22 AML Supervisors and while the ratings for those bodies supervised were better, the report criticised those inspected for not making sufficient improvement. Almost immediately after the report was released, an article was published in the Guardian repeating the criticisms and calling for the Government to get on with creating an independent regulator [Lack of City of London oversight hurting efforts to halt dirty money, FCA warns | Financial Conduct Authority | The Guardian](#) .
28. Due to OPBAS's method of reporting anonymously about the bodies which were inspected, we received a number of enquiries about whether we were one of the bodies being criticised which was incredibly frustrating. I have discussed with Paul the need to raise with OPBAS the reputational damage which the OPBAS way of reporting creates for bodies who were not inspected and who were not being criticised.
29. The introductory meeting which was supposed to take place in early October between Melanie Knight, the Head of OPBAS and Paul Brooks and Alan Vallance was called off and has been rearranged for 13 December with me replacing Alan after we explained to OPBAS (having seen the agenda to the meeting) that Alan has no operational involvement in our AML supervisory work.
30. I will provide you during the board meeting with an oral briefing on an issue which has arisen with OPBAS since the last meeting which has been the subject of correspondence and meetings during the last 3 weeks. Paul was briefed at the time about the issue and our proposed response and was made aware that the matter was satisfactorily resolved.

## 2. What are the key developments in our work in unregulated areas?

### Tax

1. Within the detailed papers released in the Budget at the end of October, there was a paper providing detail of the outcome of HMRC's consultation on the introduction of tax regulation. The key facts emerging from that briefing were:

- Responses were generally supportive of further government intervention to raise standards in the tax advice market in order to raise standards but there had been a range of views on which option was preferred;
  - 426 responses received in total - from businesses, professional body members, professional bodies, tax practitioners (affiliated and unaffiliated), charities and other sectors.
  - 60% of responses favoured Option 1 (regulation by professional bodies and compulsory membership to give tax advice), 19% favoured Option 2 (professional bodies regulating their own members with HMRC regulating the unaffiliated tax advisors) and 21% preferring Option 3 (the creation of an independent regulator).
  - Perhaps not unsurprisingly, professional bodies and their members preferred Option 1 and more unaffiliated tax advisers preferred Option 3 (42%), then Option 2 (35%) and Option 1 (23%)
  - Some respondents objected to all the regulatory approaches consulted on. For these respondents, regulation would not make a difference as the unscrupulous practitioners would just ignore any new rules. Regulation would also, in these respondents' view, unnecessarily add bureaucratic burdens to the compliant majority of the market.
  - The majority of respondents thought requirement should apply to whole of the tax market and not only to those who interact with HMRC.
  - The majority of professional bodies said other sectors (such as lawyers) should not be excluded.
2. The Government says it will take on board the opinions and concerns shared in the consultation and will continue to work closely with the sector to consider options to strengthen the regulatory framework for tax advisers.
  3. Sophie will be attending a HMRC roundtable with other professional bodies 22 November which will discuss the consultation response and next steps.
  4. The annual Hardman lecture (flagship Tax Faculty event) takes place on 25 November and the topic is regulation of the tax market with Ray McCann (former CIOT president) as key speaker. HMRC intermediaries team will be in attendance and we will try to engage with them to find out next steps.

### Professional Indemnity Insurance

5. Various routine committee meetings have taken place since the last IRB meeting, including the Joint Advisory Panel (comprising the lead insurers and three Institutes) and the Joint PIIC (comprising the three Institutes). Feedback from both these meetings on the new PII Regulations was very positive with no adverse impact in the availability of insurance following the increased limit of indemnity and changes to the level of excess. The annual process to sign-up all the insurers to our minimum wording arrangements was completed with no insurers leaving and a few new ones coming on board. Again, this shows the market has not reacted negatively to the changes to the PII Regulations.
6. Work continues on residual points relating to the PII Review project, including:
  - Finalising the large firm qualitative assessment and agreeing the process on which firms to send this to, and on what cycle
  - Annual return question changes to reflect the new requirements, including additional helpsheets, forms and guidance
  - Reviewing LSB's expectations following the rule-change approval

## Update on recent outsourced assurance work

7. For almost three weeks in November, five QAD staff, led by senior managers Will Strickland and Liz Shaw visited the Cayman Islands to support the Cayman Islands Institute for Professional Accountants (CIIPA) meet their audit monitoring responsibilities. The team arrived in Cayman just before the island was shut down due to an approaching hurricane. They were confined to their hotel for 24 hours but this did not impact their work as a Risk Partner from one of the Big Four firms delivered laptops to the team as they landed with that firm's work to be reviewed, enabling them to start their visit as planned the next morning. Thankfully, the hurricane passed by without incident, and the team were back out at firms the next day.
8. The team has visited two of the big 4 firms on the island reviewing audit work from different jurisdictions together with whole firm reviews and reviewing ISQM1 implementation. As well as the firm's Cayman teams, the reviews involved interaction with Risk Management partners and audit teams from New York, Tel Aviv, and Hong Kong.
9. In addition to two of the Big 4 firms the team also reviewed another large firm as well as 18 firms controlled by one practitioner – all joint ventures with (mainly) US accountancy firms.
10. On the evening of 18 November, the team held an event for CIIPA members focusing on ISQM1 Evaluation and Remediation, tailored to the Cayman audit market. This was followed by networking drinks with CIIPA and ICAEW members, after which the team had dinner with the CEO, President, and past President of CIIPA. Attendees included firms of all sizes and members of the CIIPA Quality Committee. The team also spent some time working in the CIIPA's offices.

## 3. Which are the key developments within PSD/outputs from PSD's teams?

### Quality Assurance Department

1. I will provide an oral update at the meeting on:
  - the number of visits undertaken to end of August and current projections for the end of the year
  - QAD's current performance against its main KPIs
  - Resourcing

### The Conduct Department

2. I will provide an oral update at the meeting on:
  - The number of new complaints received to date in 2024 and a comparison with prior years
  - The current average workload of Investigation Officers (split between teams)
  - The number reports passed to the Conduct Committee YTD
  - Resourcing
  - Update on significant cases including Project Barrow

### Regulatory Practice and Regulatory Policy teams

3. I will provide an oral update at the meeting on numbers of different regulatory applications received to 31 October with comparative YTD figures for previous years.

## PSD Communications Team

4. Lucy (Cook) tells me that three reports have been published since 1 September and supported with a promotional campaign:
  - [Audit Monitoring Report](#)
  - [AML Supervision Report](#)
  - [AML Thematic Review: the firm-wide risk assessment](#)
5. Four webinars have taken place since 1 September:
  - Practice Assurance Monitoring Results – 1,505 registrations, 838 attendees
  - Legal Services Update – 105 registrations, 65 attendees
  - Audit Monitoring Results – 538 registrations, 325 attendees
  - AML Monitoring Results and Thematic Review – 1,546 registrations, 911 attendees
6. The Regulation and Conduct [LinkedIn](#) channel continues to expand its reach. We achieved the year-end target of 8,500 followers by mid-October, plus the number of impressions gained by the end of October was already 33% higher than the whole of 2023.
7. New resources developed to provide additional guidance to MLROs were launched via a promotional campaign. The resources included a new guidebook and web area, plus an introductory email to all new MLROs was developed to point to new resources which will be shared with all future new MLROs on an ongoing basis.
8. A campaign is ongoing to raise consumer awareness that registered chartered accountants offer probate services. Results will be shared at the end of the campaign.

## Regulatory & Conduct Annual Report for 2024

9. After the decision taken earlier in the year to try to return the Annual Report to be reporting on a calendar year, Lucy and I have been working on changes to the report to freshen it up from the format used for the last two reports. The new proposed new look has been approved by the PSD Directors group and feedback has been requested from Paul and Parjinder ahead of the next board meeting.

## Finance, Operations & Projects

10. Matthew will provide an oral update at the meeting on PSD finances YTD and on the progress of ongoing IT and other projects impacting PSD.

## Litigation

11. I will provide an oral update on progress of current litigation at the board meeting.

## PSD Management / Staff away days in 2024

12. We have now confirmed dates for the first PSD senior management away day in 2025 (31 March) and for the annual staff away say (19 June) with a date for the second PSD senior management away day in September as yet not confirmed.

## New PSD film

13. I will give you an oral update regarding the development for the new film at the meeting.