



# ***PROFESSIONAL STANDARDS’ FINANCIAL PLANNING AND 2024 BUDGET***

## **EXECUTIVE SUMMARY**

1. The purpose of this paper is to provide details of Professional Standards’ Department (PSD) high-level draft 2024 budget and, for context, further information on financial planning.
2. The paper, supported by a PowerPoint slide presentation, also includes as to how the financing of PSD’s operations sits alongside ICAEW finances. This information is provided in order to give IRB members a broader understanding of the financing activities of PSD.

## **GENERAL OVERVIEW OF PSD FINANCES**

3. PSD financial planning - budget - and results include a wide range of activities;
  - a) Regulatory work carried out by statutory appointment including the granting and withdrawal of licences and the monitoring of the quality of regulated work relating to the following services:
    - i. Audit (authorised by the FRC and IAASA)
    - ii. Insolvency (authorised by the Insolvency Service)
    - iii. AML supervision (authorised by OPBAS)
    - iv. Legal services (authorised by the LSB)
    - v. Investment business advice (authorised by the FCA)
  - b) Practice Assurance – ICAEW scheme to monitor and improve the quality of firms’ operations
  - c) Member conduct leading to disciplinary investigations
  - d) Firm conduct leading to disciplinary investigations
  - e) Commercial operations including work carried out under contract e.g., QAD supervision and outsourcing contracts and products sold under licence e.g., PSD educational drama films.
4. Financial planning for PSD’s regulatory functions is carried out on a self-financing basis i.e., regulatory fees are increased to ensure that they, along with other estimated income, will cover all associated commitments and costs of operation: A target set by ICAEW Board.
5. Financial planning also includes longer term consideration for a range of elements such as risk and opportunity related to regulatory and statutory change and trends in registrations volumes.
6. PSD income is largely generated through registration fees. [REDACTED]
7. [REDACTED]

8. [REDACTED]
9. PSD operates the DPB (investment business) and RLS (reserve legal services) compensation schemes. [REDACTED]
10. Financial forecasting estimates no change in the overhead charge which will be levied by ICAEW for shared services. ICAEW's policy is to share overhead costs on a headcount basis. [REDACTED]
11. Finally, by way of overview, PSD financial planning contends with the need to levy firms and practising certificate (PC) holders for the funds required for the operation of oversight regulators. The standard oversight body funding model being that the supervised pay the costs of the supervisors, even where they are government or public bodies. PSD must therefore levy, for example, for contributions to the cost of operations of the FRC and OPBAS and must also levy insolvency practitioners for the cost of supporting Insolvency Service operations including the Complaints Gateway.
12. The levies in part flow through PSD's operational budget but, if firms ever refused to pay, the shortfall would be left with PSD particularly as some of the funding of oversight regulation by the professional bodies is open-ended and statute-based e.g., the Schedule 10 Companies Act obligation on the recognised supervisory bodies, such as ICAEW, being liable for the operating costs of the FRC.

## BUDGETING FOR PSD INCOME

13. The main sources of PSD income (other than FRC AQR levies which are passed through) as per budget 2024:
  - a) Regulatory registration fees
    - i. Audit registration fees [REDACTED]
    - ii. Insolvency practitioner fees [REDACTED]
    - iii. Probate licence fees [REDACTED]
    - iv. Investment business licence fees [REDACTED]
    - v. Affiliates [REDACTED]
  - b) Regulatory fees – ad hoc including AML supervisory contracts [REDACTED]
  - c) Practice Assurance scheme fees [REDACTED]
  - d) Licensed Practitioner Scheme fees [REDACTED]
  - e) Estimate based on trend, fines, penalties, and cost orders [REDACTED] (but will fluctuate)
  - f) Commercial income from QAD outsourcing work [REDACTED]
  - g) Commercial income from QAD products [REDACTED]
  - h) Commercial income from PSD educational drama films [REDACTED]
14. The IRB is asked at its May meeting to determine whether and, if so, by how much, to increase annual regulatory fees to pay for projected PSD costs during the next calendar year. A component of this consideration relates to the trend in falling volumes of Audit, DPB and PA registrations (see 'IRB fees and levies 2024 appendices May 2023' paper appendix 2).
15. The balance of income and cost being described as 'self-financing'.
16. This budget is prepared by the PSD finance team and overseen by the PSD Finance Director.

## ACCOUNTING FOR COMMERCIAL INCOME

17. QAD commercial visit and specialist work is completed under contract [REDACTED] Direct costs and QAD staff time are charged, leaving a net surplus within the PS budget.
18. [REDACTED]
19. The cost of producing licensed educational films has been charged to the PSD budget in previous years. Therefore, the income is also recognised in PSD.
20. An anti-money laundering film, All Too Familiar, was produced jointly with HMRC and shared with ICAEW firms for free in the UK. As contractually agreed, any overseas license fees are set aside to fund a future economic crime related project.

## BUDGETING FOR PSD COSTS

21. The starting point for projected costs of regulatory work are the staff and other direct costs which will be required to discharge PSD's statutory, regulatory, and supervisory responsibilities. These costs, in turn, will depend on the requirements of oversight regulators such as the FRC, Insolvency Service, OPBAS and the LSB, all of whom will set minimum or target objectives for an authorised professional body, like ICAEW, to carry out.

Further costs will be estimated for interacting with oversight regulators during their visits and in the finalisation of the drafting of their published reports and will also include regular contact and update meetings. These costs have increased significantly in recent years.

22. The main regular significant costs for PSD are:

- a) Staff [REDACTED]
- b) ICAEW overhead charge [REDACTED]
- c) Cost of Committee members and administration [REDACTED]
- d) Travel costs (largely related to QAD review work) [REDACTED]  
Legal and professional fees including film production [REDACTED]

## **COST OF MEMBER DISCIPLINE WITHIN PSD**

23. PSD provides a member and student conduct / discipline service to ICAEW. [REDACTED]

24. This is a functional component of PSD's budget to manage income and cost but is not part of the regulatory self-financing model i.e., PSD are not required to generate income to absorb this net cost i.e., this is to be funded by member and PC fees.

25. [REDACTED]

26. The PSD budget carries ICAEW overheads. [REDACTED]

27. As per the above 2024 budget analysis, the surplus generated within the PS operating result is offset by the cost of member and student discipline.

28. [REDACTED]

## **PSD RESULT FOR 2023**

29. PS financial results are expected to be strong and therefore to beat budget.

30. [REDACTED]

31. [REDACTED]

32. [REDACTED]

33. [REDACTED]

## Appendix 1

### ICAEW'S FINANCES

34. PSD is one of the 4 main 'business' departments within ICAEW along with; Education and Training (E&T), Reputation and Influence (R&I) and Belonging and Supporting (B&S). In addition, staff are employed in the Executive Office, central operations (including central finance, facilities, digital, HR, corporate communications and IT) and international offices.
35. ICAEW operates an annual consolidated operational planning and budget process. The budget is usually reviewed during the year e.g., a forecast in February and May.
36. Other than ICAEW Commercial activities and PSD, the net costs of all other departments and the international offices are financed by what is normally referred to collectively as "member subs". This includes:
  - a) Annual membership subscriptions
  - b) Practising certificate fees for members offering services to the public
  - c) Student admission fees
  - d) Faculty fees for access to specialist materials
37. [REDACTED]
38. [REDACTED]
39. [REDACTED]
40. A consolidated set of ICAEW management accounts is produced each month detailing the income statement, balance sheet and cash-flow, performance and commentary against budget or against a forecast, key metrics and more detailed updates from the main areas of the organisation.
41. ICAEW would usually target small operational surpluses which would fall into reserves. In recent years, ICAEW has been running an operational deficit due to decisions to increase investment.
42. ICAEW reserves are held to secure and support the whole of the operation of ICAEW, including PSD and its regulatory responsibilities.
43. The reserves policy is "reserves should be set at a level equivalent to between three and six months of expenditure through the income statement; And cash and investment balances should be at least sufficient to cover between three and six months of annual budgeted/forecast gross cash expenditure". This is to protect the regulatory function from any short-term financial anomalies or, should ICAEW decide to withdraw from an area of regulation, to allow for a properly funded handover period.
44. ICAEW 2022 financial results are available online at [https://www.icaew.com/-/media/corporate/files/about-icaew/who-we-are/annual-review/2023/icaew\\_ar22\\_financial\\_statement.ashx](https://www.icaew.com/-/media/corporate/files/about-icaew/who-we-are/annual-review/2023/icaew_ar22_financial_statement.ashx)

### RISKS ARISING FROM PSD'S FINANCIAL INTEGRATION WITHIN ICAEW

45. Strategically and operationally there is strength and opportunity by being part of larger organisation. However, there is also the potential to be exposed to risks to significant shortfalls in projected income or significant exceptional costs incurred in any one year by any other department.
46. Events which might produce a significantly poor financial forecast for ICAEW, leading to a significant loss, will be considered by the ICAEW Board to determine as to whether any commensurate cost savings would be required to bring the projected loss closer to the agreed budget position. [REDACTED]
47. However, the ICAEW Board would be cognisant of the activities which PSD is required to carry out to fulfil its statutory obligations and the reputational and additional financial risk which would be incurred by any shortfall in required activities.

## **ADVANTAGES OF PSD'S FINANCIAL INTEGRATION WITHIN ICAEW**

48. While PSD has its own small, expert finance team, it benefits of being able to rely on central finance functions e.g., cash management, accounts payable, financial accounting, tax and insurance expertise, and internal and external audit.
49. PSD also benefits from efficient and cost-effective synergies through sharing services including;
  - a) Property management;
  - b) Human resources
  - c) IT systems
  - d) Brand and corporate communications
  - e) Insurance
  - f) Common billing mechanism e.g. to reach UK PC holders.
  - g) [REDACTED]
50. Ultimately, PSD benefits from the strong overall reserves position of ICAEW and this allows the ICAEW Board to authorise or underwrite exceptional expenditure such as related to a large scale or long running investigation.
51. This is a reflection and acceptance that the reserves are there to support all departments. Also, that PSD can benefit from these reserves reflects the fact that the ICAEW Board has determined to support ICAEW's continuing role as a regulator and understands by pledging that support that it will be required to fund all necessary actions and steps which PSD considers necessary to discharge its regulatory obligations. The agreement to undertake potential significant costs and risks outside of PSD's budget is also an implicit recognition that PSD has made substantial contributions to ICAEW's reserves over recent years by running budget surpluses and ensuring that the pension deficit plan targets were met.

Appendix 2

[REDACTED]

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