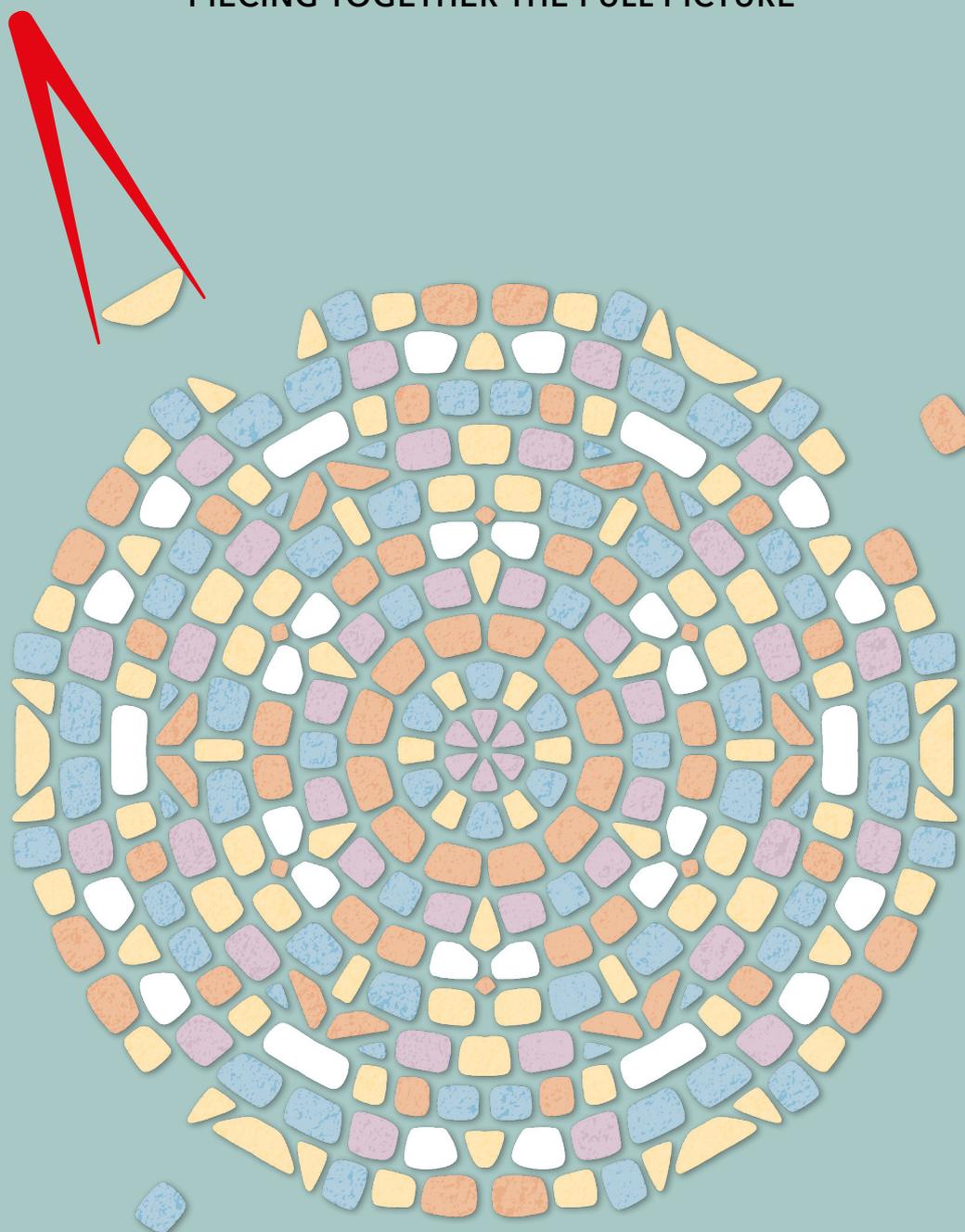


Practice Assurance Principles 2018

PIECING TOGETHER THE FULL PICTURE



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Areas of focus

Using key findings from Practice Assurance reviews carried out in 2017, this report is a summary of best practice suggestions and essential actions for your firm.

Our Quality Assurance Department monitors compliance with our Practice Assurance Standards by gathering information from our firms annually and through a programme of monitoring reviews. You can find out more at [icaew.com/practiceassurance](https://www.icaew.com/practiceassurance)

AREAS OF FOCUS

During every Practice Assurance visit, we review a wide range of areas of a firm's practice, as well as focusing on specific topics during some of our visits. In 2017 our focussed reviews included:

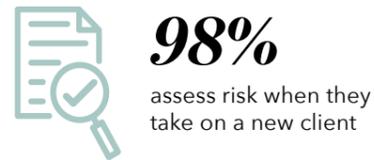
- client take-on
- marketing
- trusts

Although our focussed reviews were carried out at a number of our larger firms, many of our findings are relevant to smaller practices.

Client take-on

We reviewed the client take-on procedures for 100 firms and identified the following key facts:

COMMON PRACTICES



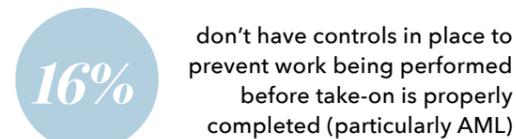
have processes in place to check PEPs



GOOD PRACTICES



ROOM FOR IMPROVEMENT



OTHER NOTABLE FINDINGS IN THIS AREA

Many firms (outside the very largest) use bought-in, proprietary systems for their client take-on.

Firms have put procedures in place to help ensure their client take-on procedures are adhered to. For example:

- A client code can't be set up until all aspects of anti-money laundering (AML) are complete.
- Practice management systems flag up clients with no engagement letter, no client due diligence (CDD) and / or no risk review.
- Adherence to take-on procedures is included in regular monitoring reviews.

In many firms new client take-on is subject to differing levels of review and sign-off, dependent on risk assessment.

Most firms have considered the impact of the Foreign Account Tax Compliance Act (FATCA) on their clients and have appropriate procedures in place to help clients with their obligations in this area.

In general we found a lot of firms have only informally considered the impact of professional conduct in relation to tax (PCRT) when engaging for tax advisory work. In the majority of cases, however, the principals or staff giving the advice were trained tax professionals who are well aware of the requirements of PCRT.

Most of the firms using electronic checks for AML CDD are using it to supplement other ID checks.

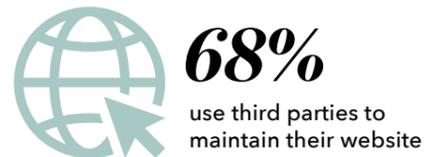
TOP CLIENT TAKE-ON TIPS FOR SOLE PRACTITIONERS AND SMALL FIRMS

- 1** However small your firm, use a good client take-on checklist to make sure you cover all the areas you need to. We provide a [Decision to accept an appointment checklist](#), which you can find in the helpsheets area of our website icaew.com/helpsheets
- 2** Consider putting a liability cap in place if you think the work you are going to do is particularly risky (not for audit work though!).
- 3** Introduce a process to monitor whether all new clients have a letter of engagement and appropriate AML documentation in place. This could be a simple spreadsheet, via your practice management system, or by not allowing a client to be set up until all these things are in place.
- 4** Make use of our Client Screening Service to supplement your AML CDD procedures.

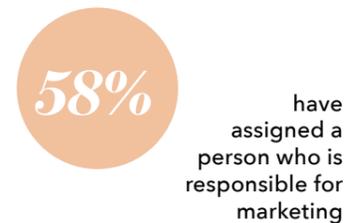
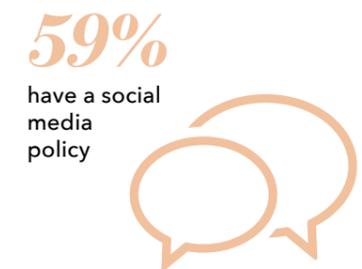
Marketing

We reviewed the marketing procedures for 66 firms. From this, we identified the following key facts:

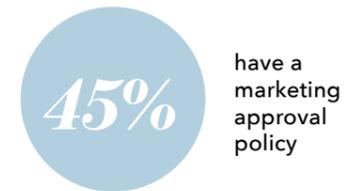
COMMON PRACTICES



GOOD PRACTICES



ROOM FOR IMPROVEMENT



OTHER NOTABLE FINDINGS IN THIS AREA

Firms find that a dedicated marketing professional responsible for marketing helps to focus their approach and ensure that ethical and advertising standards are followed. Some firms outsource areas of their marketing, mainly services like website maintenance and development, public relations and client / market research.

In general, a low percentage of firms have documented procedures in this area.

All firms recognised the importance of reputation and, increasingly, brand.

In most cases, marketing that includes technical content was approved by the relevant principal in the firm.

TOP MARKETING TIPS FOR SOLE PRACTITIONERS AND SMALL FIRMS

- 1** Reputation is key so make sure your marketing is accurate, particularly if it includes technical content.
- 2** Make good use of social media as you can potentially reach a large but very targeted audience.
- 3** Make sure staff know what your firm's marketing and social media policies are.
- 4** Use the ICAEW logo on marketing material and on your website to help reassure your clients and demonstrate your professionalism.
- 5** Get help from a professional marketing agency if you don't have a marketing resource.

Trusts

We reviewed the procedures 68 firms had in place for trust work and identified the following key facts:

COMMON PRACTICES

79%

consider the CRS



97%

restrict trust work to certain principals / staff

75%

provide tax planning / advice to trust clients but only **66%** of these firms have procedures to ensure they comply with PCRT



4%

prepare trust deeds



21%

have a principal / employee who has sole signing powers over trust bank accounts

12%

have principals or employees that act as sole trustees

4%

receive commission from trust activities



21%

have trustee powers delegated to a principal or employee by power of attorney

GOOD PRACTICES

93%

have procedures to identify trusts that need to register their beneficial ownership with HMRC

37%

include investment advice or referral to a permitted third party as part of trust advisory work



56%

communicate the FATCA requirements to clients



50%

are FCA registered or DPB licensed

ROOM FOR IMPROVEMENT

6%

Worryingly, **6%** had PII cover that did not appear to include acting as a trustee to a trust



46%

have made changes to engagement procedures to identify clients that FATCA applies to

11%

don't have a standard engagement letter for all types of trust work



7%

have not considered the implications and obligations of FATCA. A similar amount don't have reporting procedures once a reportable transaction is identified

26%

don't include trust work in their internal quality review procedures



OTHER NOTABLE FINDINGS IN THIS AREA

The majority of firms keep a register of trusts where someone in the firm was appointed as trustee. Fewer firms keep a record of all the trusts they carry out work for.

In general, firms are aware of the risks involved with someone in the firm being a sole trustee. Some firms prohibit this altogether.

A number of firms have relationships with solicitors who draft trust deeds for them and provide specialist advice.

Most firms have a system for managing deadlines for trust tax returns and 10 year charges.

Trust work is generally conducted by private client staff who have good knowledge of the area including consideration of PCRT.

Many firms have reviewed all trust clients to establish the extent of any FATCA implications. Firms have introduced consideration of FATCA and the Common Reporting Standard (CRS) into their trust procedures. Many trusts have other advisers so the first step is to decide which adviser will cover the FATCA and CRS requirements.

It was early days for registration of trusts with HMRC, but most firms have been communicating the requirements to their trust clients and introducing procedures to make sure trusts know they should register. Firms have experienced teething problems with HMRC's registration system.

Trust work isn't always systematically included in the firms' compliance monitoring reviews. Given this work can be more risky, firms should ensure they include this.

TOP TRUSTS TIPS FOR SOLE PRACTITIONERS AND SMALL FIRMS

1

Be aware of the risks of acting as a sole trustee. Put safeguards in place if you have such appointments. For example, someone else in the firm should review your work.

2

Use a diary system to ensure you meet all trust deadlines including the 10-year charge.

3

If you act for trusts, make sure you have a solicitor to consult with and to draft trust deeds.

4

Make sure you consider the implications of FATCA and CRS for your trust clients.

5

Ensure your trust clients register with HMRC.

6

Include trust work in any compliance monitoring reviews.

Visit outcomes

We completed 2,266 Practice Assurance reviews in 2017 (2016 – 1,976). We closed 89% (92% – 2016) of our reviews without the need for any follow-up action. The table below gives a full analysis of the outcome of our visits by delivery method.

DELIVERY METHOD	NO MATTERS REQUIRING ACTION (MRA)	FIRM ADDRESSED MRA WITH NO NEED FOR FOLLOW-UP	SOME FOLLOW-UP NEEDED	REPORT-ED TO THE PRACTICE ASSURANCE COMMITTEE	NUMBER OF FIRMS
Desktop review (DTRV)	63% 46%	29% 44%	4% 6%	4% 4%	693 467
Onsite	22% 25%	60% 65%	13% 7%	5% 3%	1,001 945
New firm webinar (NFW)	97% 98%	2% 0%	1% 1%	0% 1%	194 217
Telephone	33% 36%	62% 59%	4% 3%	1% 1%	378 347

Figures shown in table

2017
2016

The number of firms requiring some kind of follow-up increased in 2017 from 2016. In many cases the follow-up has been due to firms not fully addressing issues that we identified on the previous visit.

The firms we reviewed in 2016 and 2017 that watched our new firm webinar and had a follow-up discussion, were 66% less likely to require any follow-up action than firms that had not gone through this process.

Committee referrals

In 2017 we referred 73 firms to the Practice Assurance Committee. In turn the Committee referred 31 of those firms to the Professional Conduct Department for further investigation. The reasons for these referrals were:

REASON FOR REFERRAL*	NO FIRMS
Failure to comply with previous assurances	11
Non-compliance with Clients' Money Regulations	8
Failure to comply with PA Committee decision	7
Non-compliance with AML Regulations	6
Failure to respond to ICAEW and / or provide information	5
Other isolated findings	5
Non-compliance with PII Regulations	3
Issues of disclosure of and / or retention of commissions / referral fees	3
Practising without a practising certificate	2

*Firms can be referred for more than one reason

The Practice Assurance Committee is concerned that firms underestimate the impact of not complying with Practice Assurance Standards. Although a very small number from the thousands we review are subject to disciplinary action, the time and costs involved can be significant. The highest number of referrals were made for firms that had not followed through on the assurances they had given to us after our last review. It is therefore important that you monitor your action plan following a PA review and ensure that it is carried out.

Examples of fines and costs to firms referred by the Practice Assurance Committee to the Investigation Committee in 2017:

- Firm did not comply with a previous assurance – reprimanded, £1,725 fine, £1,718 costs.
- Sole practitioner failing to respond to QAD PA visit findings – severe reprimand, £2,800 fine, £2,000 costs.
- Firm did not comply with previous assurances regarding implementation of AML procedures and not ensuring that appropriate CDD procedures were applied to all clients – severe reprimand, £9,200 fine, £1,453 costs.
- Firm repeatedly describing themselves as 'chartered accountants' when not eligible to do so, having no money laundering supervisor, not notifying ICAEW of changes to the firm and incorrect annual returns – reprimand, £3,750 fine, £2,880 costs.

Analysis

The table on the right shows the areas where we found firms need to take action. Although compliance with AML Regulations has consistently topped the charts over several years, the nature of our findings in that area is changing. We are now asking firms to improve compliance activities rather than finding that they are not complying at all.

The Clients' Money Regulations (CMR) impose a number of requirements on firms that hold clients' money to help ensure that it is kept safe. Some firms are not complying with all aspects of the CMR, in particular they are not obtaining a bank trust letter to acknowledge the status of clients' money bank accounts and they are not conducting an annual clients' money compliance review.

All our Data Protection Act findings relate to firms and / or their connected entities not registering with the Information Commissioner's Office as a data controller.

We are also identifying more eligibility issues which are due to firms' structures becoming more complex or a decrease in the proportion of ICAEW Chartered Accountants. This impacts on firms' eligibility to be a member firm, (and therefore for ICAEW to be their AML supervisor) and / or call themselves 'chartered accountants'.

FIND OUT MORE

For more guidance in these areas visit [icaew.com/paguidance](https://www.icaew.com/paguidance)

FINDING TYPE	NO. OF FIRMS	% FIRMS	2017	2016
AML	861	38.00%	1	1
Clients' Money Regulations	343	15.14%	2	2
Data Protection Act	174	7.68%	3	3
Eligibility	103	4.55%	4	8
Annual return	92	4.06%	5	4
PII	71	3.13%	6	11
Commission received	68	3.00%	7	9
Companies Act and other disclosure requirements	68	3.00%	7	5
DPB (Investment Business) boundary issues	57	2.52%	9	12
Notifying ICAEW of changes	54	2.38%	10	6
Letters of engagement, terms of business and client acceptance	46	2.03%	11	7
Consumer Credit	29	1.28%	12	new entry
More isolated findings	140	6.18%		

Future areas of focus

This year we will carry out a similar exercise with a focus on two different areas:

1. AML procedures and how firms are complying with the new Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. You can find guidance on this at [icaew.com/moneylaundering](https://www.icaew.com/moneylaundering)
2. A look at how firms have prepared for, and are complying with the General Data Protection Regulation (GDPR) which comes into force in May 2018. You can find guidance on GDPR at [icaew.com/gdpr](https://www.icaew.com/gdpr)

CONTACT US

If you have questions on any of the topics in this report, please call Advisory Services

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E qadfaqs@icaew.com

W [icaew.com/practiceassurance](https://www.icaew.com/practiceassurance)

Help and support from ICAEW

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 webinar

[icaew.com/pawebinar](https://www.icaew.com/pawebinar)

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)

For a full list of our 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)

Technical and ethics advisory helpline +44 (0)1908 248 250

Courses to help you with your continuing professional development can be found at

[icaew.com/cpd](https://www.icaew.com/cpd)

Communities

We have a number of communities offering the most up-to-date information, thought leadership, advice and guidance for chartered accountants working in a range of industry sectors and professional specialisms. Visit [icaew.com/communities](https://www.icaew.com/communities) for more information.

ICAEW library service

The Library & Information Service (LIS) is ICAEW's renowned leading business library, providing a huge range of resources for its students and members.

Visit [icaew.com/lis](https://www.icaew.com/lis) for more information

Annual return

Guidance on how to complete your firm's annual return is available at [icaew.com/annualreturn](https://www.icaew.com/annualreturn)

There are over 1.7m chartered accountants and students around the world – talented, ethical and committed professionals who use their expertise to ensure we have a successful and sustainable future.

Over 150,000 of these are ICAEW Chartered Accountants. We train, develop and support each one of them so that they have the knowledge and values to help build local and global economies that are sustainable, accountable and fair.

We've been at the heart of the accountancy profession since we were founded in 1880 to ensure trust in business. We share our knowledge and insight with governments, regulators and business leaders worldwide as we believe accountancy is a force for positive economic change across the world.

www.charteredaccountantsworldwide.com
www.globalaccountingalliance.com

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