



Maintaining the quality of your practice

PRACTICE ASSURANCE MONITORING 2021



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Practice assurance monitoring

THE PRACTICE ASSURANCE COMMITTEE AND THE ICAEW REGULATORY BOARD

The Practice Assurance Committee (PAC) considers reports following Practice Assurance (PA) monitoring reviews. It may require the firm to take certain remedial action to address concerns, for example, in relation to the handling of clients' money or the firm's compliance with the requirements of the Money Laundering Regulations.

The PAC reports to the ICAEW Regulatory Board (IRB) which is an independent board that is responsible for the statutory role of ICAEW and for ensuring ICAEW's regulatory and disciplinary work is carried out in the public interest. The IRB ensures that ICAEW's Professional Standards Department runs the processes that underpin the conduct of PA monitoring work effectively and efficiently. More information about the role of the IRB can be found at [icaew.com/irb](https://www.icaew.com/irb)

PRACTICE ASSURANCE VISITS IN 2020

In a normal year we undertake a mix of reviews, some desk-based, but many are onsite. In line with government guidance we stopped carrying out onsite monitoring reviews on 15 March 2020 and put alternative procedures in place to continue to carry out as many of our scheduled visits as possible.

We adapted our onsite PA visit approach to carry out remote reviews. These are different to our usual desk-based reviews, which tend to be for smaller, lower risk practices. Our remote reviews are more extensive and still involve us looking at client files. In most cases firms shared information with us using a secure file transfer portal and we reviewed it offsite. We conducted most of our discussions with firms by video conference using a variety of platforms.

We've been grateful that many firms have carried on with business as usual and have helped us find a way to carry out our reviews. Against all odds, we've managed to adapt and keep going to fulfil our responsibilities.



Area of focus

Our PA scheme provides ICAEW member firms and practising certificate holders with a framework of principles-based quality assurance standards to operate to. Every PA review covers a wide range of areas to consider compliance with relevant laws and regulations.

In 2020 we focused on how firms have incorporated the requirements of **Professional Conduct in Relation to Taxation** into their processes and procedures. Due to COVID-19 restrictions we only carried out this focused review at 51 of the largest firm reviews. Our findings are therefore limited, but we have included them in this report as they provide useful information for all firms.

PROFESSIONAL CONDUCT IN RELATION TO TAXATION (PCRT)

PCRT is produced jointly by seven professional bodies and associations, including ICAEW. It has been in existence for over 20 years and is regularly updated. It sets out the high ethical standards which form the core of the tripartite relationship between tax adviser, client and HMRC. PCRT has been endorsed by HMRC as an acceptable basis for dealings between members and HMRC. Compliance with PCRT is mandatory for ICAEW members. They must be familiar with and comply with PCRT and a failure to do so may result in disciplinary action. As part of our review we talked to the Practice Assurance compliance principals, those responsible for tax compliance in their firms and some staff members involved in tax work.

KEY FACTS

Surprisingly only 82% of firms confirmed they had read the PCRT guidance. However, as the guidance is based on good ethical practice most of the firms who hadn't read it were still able to demonstrate that they were following the principles of the guidance. That said, only 69% had a formal mechanism for monitoring compliance with PCRT and their own procedures.

At engagement all the firms consider whether they have the competence to carry out the required work and 96% tailor their engagement letter to ensure that it sets out the scope of tax planning and compliance services. 90% only allow tax planning advice to be provided by authorised individuals.

98% ensure that principals and staff receive tax training suitable for the work they do.

Encouragingly 96% of firms had procedures in place to monitor business or family connections with clients. Only 10% of firms in the sample receive commissions or referral fees relating to tax work and 16% pay referral fees for tax work referred to them.

All firms said that they obtain and retain evidence of the client's approval of tax returns but 29% make filings eg, VAT and RTI returns, that are not reviewed by the client. In these cases, the engagement letter makes it clear that filings will be based on the information provided by the client and that the client is responsible.

Most of the firms had policies for dealing with errors in tax returns, although 18% did not have a documented procedure to follow where a client is reluctant to disclose an error. 41% told us that they had occasions where they could not resolve a disagreement with a client about making full disclosure to HMRC, although these instances were rare. The firms told us that they would strongly advise the client to comply with legislation and they would cease to act if the client refused to do so.

Less than 30% of the firms were involved in complex tax planning and they had appropriate procedures in place to consider the potential application of the general anti-abuse rule, requirements for disclosure of tax avoidance schemes, and the strength of legal interpretation relied on and the risk of challenge by HMRC.



96% tailor their engagement letter to ensure that it sets out the scope of tax planning and compliance services



100% obtain and retain evidence of the client's approval of tax returns



96% of firms had procedures in place to monitor business or family connections with clients



90% only allow tax planning advice to be provided by authorised individuals



98% ensure that principals and staff receive suitable tax training



82% of firms had read the PCRT guidance



69% had a formal mechanism for monitoring compliance with PCRT and their own procedures



18% did not have a documented procedure to follow where a client is reluctant to disclose an error

→ COMMON

→ GOOD

→ ROOM FOR IMPROVEMENT

WHAT FIRMS TOLD US:

APPLICATION OF PCRT

'All staff have to complete an annual return confirming that they have read the PCRT Guidance.'

'Fundamental principles of PCRT are integral throughout the tax procedures documentation.'

USE OF ESTIMATES

'We won't use estimates to meet deadlines. We will only file returns where there is a genuine reason for something being an estimate, and we would disclose this at the time. Few and far between.'

'We include estimates when we have to and record this on an estimates register. We update the information when correct figures are available.'

CLIENT TAKE-ON AND ENGAGEMENT

'The firm's new client checklist considers competence. In addition, before taking on a significant/complex tax client, the partners will discuss at their weekly partners' meeting to see if they have the capability. If they feel they don't have the expertise, they will not take on the client.'

'We would not go beyond our 'comfort' zone. The firm is large enough to be competent in a range of areas, but we would use specialists if necessary.'

'The firm's standard engagement letters and reports clearly define the responsibilities of the firm and the client. Both make it clear that it's the client's duty to provide full and accurate information and to let the firm know if circumstances have changed. There is very specific guidance internally on who is authorised to give advice in different areas.'

TRAINING

'The firm has monthly internal training which is predominantly tax focussed. All staff attend and are updated on changes plus on aspects which other staff have learned through the work they have been carrying out.'

'Training on ethics and PCRT is mandatory for all staff and is completed online.'

TAX PLANNING

'We undertake tax planning within the legitimate zone, obtain clearance from the HMRC in advance if in doubt and disclose on tax returns. Nothing contentious.'

'The firm would generally not get involved in any tax planning arrangements where there was an increased risk of challenge by HMRC.'

'We only advise clients to go ahead with any tax planning where there is more than a 50% chance that HMRC will accept it.'

ERRORS

'If an error came to light the first thing would be to speak to the client immediately. We would look to rectify the issue.'

'A partners' meeting is held if there is suspicion of a wilful holding back of information by the client and we would consider withdrawing from the engagement.'

'There have been occasions when the client has said 'can't we just ignore it' but we always say there should be full disclosure.'

MONITORING

'A tax specific annual cold file review visit is performed in each office every year. The reviewers follow a checklist which includes consideration of PCRT matters. Both compliance and advisory engagements are reviewed.'

HINTS AND TIPS

You need to ensure that all principals and staff involved in tax work have read the PCRT guidance and have easy access to it. You should review your procedures for tax work to ensure that they are compliant with the guidelines.

Consider what action you would take if things go wrong and incorporate this into your procedures.

Provide regular ethics training to tax staff which covers PCRT.

Carry out periodic cold file reviews of tax work to ensure your procedures are being followed and PCRT is being complied with.

Find out more at [icaew.com/PCRT](https://www.icaew.com/PCRT)

Visit 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 2020.

In 2020 we carried out 1,681 Practice Assurance reviews (2019: 2,132)

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Onsite (remote from 15 March 2020)	17%	19%	57%	56%	20%	19%	6%	6%	497	1034
Desktop reviews of information provided by firms	36%	39%	51%	46%	9%	9%	4%	6%	348	380
Other desk-based reviews	100%	100%							563	209
New firm webinars	93%	94%	4%	3%	2%	2%	1%	1%	108	284
Telephone reviews	36%	32%	59%	62%	4%	4%	1%	2%	165	225

In 2020 we issued 34 reports to the Practice Assurance Committee (PAC). From 1 July 2019 the PAC has been able to issue financial penalties to firms. Below are some of the reasons for our committee reports:

- 16 firms failed to address issues raised at their previous visits with significant weaknesses in their approach to compliance with money laundering regulations and six of these also had repeat issues relating to informing clients of the basis of fees and the complaints procedure. One of these firms was referred to the Professional Conduct Department and 13 were given penalties of between £700 and £2,000 by the PAC.
- Seven firms had used the description Chartered Accountants when they were not entitled to do so.
- Two cases related to being in public practice without a Practising Certificate or PII.
- One firm was making regulated referrals for investment business advice to restricted advisors without a DPB licence.
- Other factors resulting in a report included a lack of cooperation, signing an Independent Examination report when the client required an audit, and providing a self-insured tax protection scheme.

HINTS AND TIPS

Review the points raised at your last Practice Assurance review and ensure you have taken action to address all the issues.

Analysis of findings

The table below shows the number of firms with at least one finding under the regulation heading:

Finding type	No. of firms	% firms	2020 ranking	2019 ranking
Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR17)	583	35%	1	1
Clients' Money Regulations	166	10%	2	3
Basis of fees and complaints, and engagement letters	148	9%	3	9
Data Protection Act and computer procedures	107	6%	4	2
Annual Return	79	5%	5	4
Eligibility	40	2%	6	10
Commission received	61	4%	7	7
Notifying ICAEW of changes	56	3%	8	5
Professional Indemnity Insurance	42	2%	9	8
DPB boundary issues	42	2%	10	New entry
Ethics	31	2%	11	6
Other isolated findings	107	6%		

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

Top findings within each key area

MLR17

Later this year we will publish our annual AML monitoring report which will detail AML related findings from our monitoring reviews. We strongly recommend that you look out for the AML report and read it carefully. Findings relating to non-compliance with Money Laundering Regulations continue to be the most common issues that we see. There is more information on AML on our website ([icaew.com/aml-supervision](https://www.icaew.com/aml-supervision)).

CLIENTS' MONEY

Compliance with the Clients' Money Regulations (CMR) remains one of the top areas. We identified:

- 87 firms that did not have a bank trust letter to acknowledge the status of the clients' money bank accounts;
- 57 firms which hadn't carried out and documented an annual clients' money compliance review. You can find a checklist to use for this at [icaew.com/client-money](https://www.icaew.com/client-money); and
- 30 firms not using designated accounts when firms held over £10,000 for more than 30 days

BASIS OF FEES AND COMPLAINTS

At 130 firms we found that they had not informed their clients of the basis on which fees are charged and the complaints procedure, including their right to complain to ICAEW.

You do not have to issue engagement letters to clients, but the above two matters must be communicated to all clients in writing.

You can find a sample engagement letter template at [icaew.com/engagement-letters](https://www.icaew.com/engagement-letters). If you don't want to issue an engagement letter, you could communicate these matters to clients in any of the following ways:

- a standard terms of business letter;
- a brochure given to the client; or
- a paragraph in the body of initial correspondence.

We also found issues where firms were not keeping their engagement letters up to date, and/or were incorrectly informing clients that they were able to carry out work requiring a DPB licence when this was not the case.

DATA PROTECTION

The main finding in this area related to 90 firms, including 38 new firms, which had not registered with the Information Commissioner's Office (ICO). We also found 19 firms which had still not put adequate procedures in place to meet the requirements of the General Data Protection Regulation (GDPR).



ANNUAL RETURN AND NOTIFYING ICAEW OF CHANGES

Errors in firms' annual return data are in fifth place in the top findings.

When completing your firm's annual return to ICAEW, please be careful to check all standing data. If you find an error in the standing data, let us know what we need to do to correct it.

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.

HOW TO NOTIFY US: FIRMS NOT WORKING IN THE SPECIALIST AREAS OF AUDIT, ATOL REPORTING, DPB (INVESTMENT BUSINESS) AND PROBATE

Please tell our members records team about any changes to your firm structure in writing, by post or email firms.admin@icaew.com.

HOW TO NOTIFY US: FIRMS WORKING IN THE SPECIALIST AREAS OF AUDIT, ATOL REPORTING, DPB (INVESTMENT BUSINESS) AND PROBATE

Please tell our regulatory support team of any changes to your firm structure within 10 business days. There are two useful forms for this purpose:

- for any changes to your firm structure, please complete and return the [standing data changes form](#); and
- for details of any mergers and acquisitions, please complete and return the [mergers and acquisitions application form](#).

You can find full details of how to notify us of changes, including forms and contact details, at icaew.com/firmrecord.

Failure to notify us of changes to your practice can also lead to eligibility issues (number six in this year's table). To make sure you can use the term Chartered Accountant, are a member firm under the Practice Assurance Regulations and therefore automatically supervised by us for money laundering and to check other eligibility matters, visit our page on maintaining your firm's record, icaew.com/firmrecord.

CODE OF ETHICS; REFERRAL FEES AND COMMISSIONS

We identified gaps in accounting for unregulated commission and/or referral fees at 61 firms. Typically, this is where firms have not told their clients in writing how much they received and/or obtained their consent to retain the fee or commission.

The ICAEW Code of Ethics, sections 330.12 A1 to 330.14 A1 set out your requirements to:

- notify all relevant clients in writing of the amounts you have received;
- obtain their written consent to retain the fee or commission; and
- treat the amounts received as clients' money and bank them in a client account until you have permission to retain the money.

For unregulated activities, you could obtain advanced informed consent by having an appropriate paragraph in your engagement letter that includes examples of likely commissions and amounts. However, you will still need to tell the client the amount once received.

Visit [Practice Helpsheets](#) for sample engagement letter wording to help with compliance in this area.

REFERRALS TO FINANCIAL ADVISERS

It's also important to review the requirements outlined in the [ICAEW Code of Ethics](#), section R331.17 when considering making referrals to financial advisers.

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 FCA. To make a referral to a restricted adviser you need to ensure that your client's needs will be addressed appropriately. You need to assess 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. You should also be aware that some types of referral to financial advisers may require a DPB (Investment Business) licence. For further information see the ['Regulations deconstructed' booklet](#) at icaew.com/pfp.

Future areas of focus

The areas of focus for our 2021 Practice Assurance onsite and remote visits are Assurance and other reports. These reports include:



We will review the procedures the firm has in place to carry out and record work on these assignments, training of staff and the monitoring of work done.

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** - [icaew.com/practiceassurance](https://www.icaew.com/practiceassurance)
- **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)
- **Regulatory news and updates** - [icaew.com/regulatorynews](https://www.icaew.com/regulatorynews)
- **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)
- **Helplines and support** - [icaew.com/helplines](https://www.icaew.com/helplines). You can contact us for specialist help on a wide range of topics including ethical, technical and legislative. Our technical advisory team offer advice on all aspects of complying with the Money Laundering Legislation. 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.
- **Courses to help you with your continuing professional development** - [icaew.com/cpd](https://www.icaew.com/cpd)
- **Communities** - [icaew.com/communities](https://www.icaew.com/communities)
- **ICAEW library service** - [icaew.com/lis](https://www.icaew.com/lis)
- **Annual return guidance** - [icaew.com/annualreturn](https://www.icaew.com/annualreturn)
- **Raise a money laundering concern** - [icaew.com/amlconcerns](https://www.icaew.com/amlconcerns)
- **Core accounting and tax service** - [icaew.com/bloomsbury](https://www.icaew.com/bloomsbury)
- **Anti-money laundering resources** - [icaew.com/moneylaundering](https://www.icaew.com/moneylaundering)
- **Anti-money laundering supervision** - [icaew.com/amlsupervision](https://www.icaew.com/amlsupervision)

Our role as a world-leading improvement regulator

We protect the public interest by making sure ICAEW's firms, members, students and affiliates maintain the highest standards of professional competency and conduct.

ICAEW's regulatory and disciplinary roles are separated from ICAEW's other activities 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 and overseen by the independent ICAEW Regulatory Board (IRB).

Our role is to:

- 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.

ICAEW's regulatory and disciplinary roles are separated from ICAEW's other activities 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 and overseen by the independent ICAEW Regulatory Board (IRB).

Chartered accountants are talented, ethical and committed professionals. There are more than 1.8m chartered accountants and students in the world, and more than 187,800 of them are members and students of ICAEW. 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.

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* Source: CAW, 2020 - Interbrand, Best Global Brands 2019

