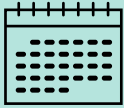


PRACTICE ASSURANCE MONITORING 2022

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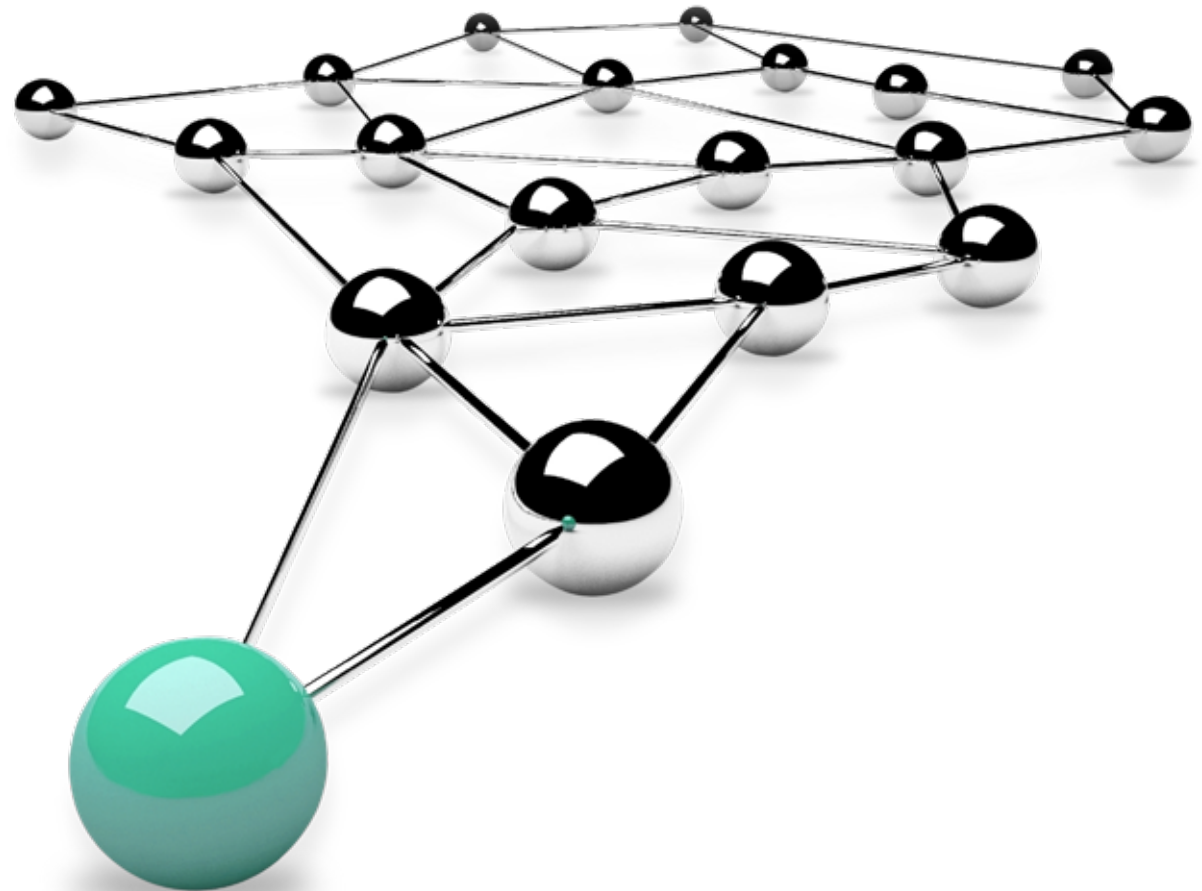
PRACTICE ASSURANCE REVIEWS IN 2021

In a normal year we undertake a mix of reviews, some desk-based, but many are onsite. During 2021, we followed government guidance and for most of the year we continued with the approach we adopted in 2020. This involved carrying out remote Practice Assurance reviews in order to fulfil our responsibilities and carry out as many of our scheduled reviews as possible.

These remote reviews are different to the desk-based reviews we usually carry out, which tend to be for smaller practices. Our remote reviews are more extensive and still involve us looking at client files. In most cases firms have shared information with us using a secure file transfer portal and we have reviewed it offsite. During 2021, we conducted most of our discussions with firms by video conference using a variety of platforms.

Towards the end of the year we started to carry out onsite reviews and during 2022 we reverted to our pre-pandemic review procedures.

We've been grateful that firms have carried on with business as usual and have helped us find a way to conduct our reviews.





AREAS OF FOCUS

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

In 2021 our Practice Assurance onsite and remote reviews focused on assurance and other reports. These reports include (amongst others):

- Independent Examination Reports on Charities
- Solicitors Regulation Authority Accounts Rules
- Service Charge Accounts
- Assurance reports on Client Assets to the Financial Conduct Authority (FCA)

We reviewed the procedures the firms had in place to carry out and record work on these assignments, training of staff and the monitoring of work done. We also looked at a sample of client files.

Not all firms we reviewed were issuing every type of report and as we only looked at a sample at each firm, we are not able to draw direct comparisons between the procedures followed in each assurance area.

KEY FACTS: INDEPENDENT EXAMINATION REPORTS (IER) ON CHARITIES

Work on these reports was generally carried out by specific teams and **97%** of firms were monitoring the competence of those teams to carry out this type of assignment.

94% had sent an engagement letter to the client covering the IER services, which included paragraphs about whistleblowing to The Charity Commission. However, we found that some of these were quite old, and some had been poorly tailored referring to incorporated charities when the client was an unincorporated charity and vice versa.

We saw evidence on **94%** of the files that the firms had checked that the client did not require an audit but only **75%** had documented an understanding of the charity's constitution, objectives, organisational structure and activities. We saw no evidence that **15%** of the firms had considered the independence of the engagement team.

Most firms had sufficient documentation of the work they had done; checking the accounting records were complete, comparing the accounts with underlying records and carrying out some

transaction testing. However, we found only approximately **65%** of firms had documented the following procedures to:

- identify and consider significant estimates and judgements;
- ensure the trustees had carried out a review of internal financial controls during the year;
- review steps taken by the trustees to ensure that restricted or endowed funds were correctly reported in the accounts; and
- establish if related party disclosures were correct and complete.

69% of firms had obtained written representations and we saw evidence of a review of the work at **88%** of firms, although all firms told us that they had a process to review all reports before they were issued.

Only **58%** of firms carried out cold file reviews of IER assignments.

3% of the firms reviewed had reported matters of material significance to The Charity Commission.

KEY FACTS: SOLICITORS REGULATION AUTHORITY ACCOUNTS RULES (SRAAR)

All of the firms reviewed were using standard checklists or work programmes. Most of these were commercial products, although a few of the larger firms had developed their own procedures. All firms had updated these to take account of the 2019 changes to the SRAAR.

96% of firms said that they had strengthened their planning procedures following the 2019 changes, with an increased emphasis on risk assessment.

All the firms had put procedures in place to identify any potential independence issues, either via annual declarations and/or assignment specific declarations.

92% had specific teams to carry out SRAAR assignments. Key staff and principals involved in this work had all received training on the 2019 changes to the SRAAR and firms were making technical material available, although only **72%** of the firms reviewed had anyone at the firm who was a member of the ICAEW Solicitors Community.

66% of firms carried out cold file reviews of SRAAR assignments.

36% of the firms had issued a qualified SRAAR accountants' report in the last 12 months and **4%** had made whistleblowing reports to the Solicitors Regulation Authority.

KEY FACTS: SERVICE CHARGE ACCOUNTS

We only reviewed service charge accounts work at a small number of firms in 2021, so our findings may not be representative, but we have included them in this report as they may be of interest to readers.

50% of firms engaged with managing agents rather than directly with the directors, and most of those considered the impact of this on their independence, especially where managing agents referred a number of assignments.

Only **75%** of firms had obtained a copy of the lease and reviewed it to ensure that they would adhere to all the requirements of the lease during the assignment, and only **86%** of engagement letters made the scope of the assignment clear.

We found that the work done, including analytical review, was well documented.

87% of the firms have procedures manuals and/or checklists. **88%** of the firms had a record of the work being reviewed.

Only **27%** of firms carried out cold file reviews of service charge assignments as part of their compliance reviews.

KEY FACTS: ASSURANCE REPORTS ON CLIENT ASSETS TO THE FCA (CASS)

All firms reviewed were using standard checklists or work programmes and had ensured that members of the team had access to the Client Asset Assurance Standard.

All had an understanding of the clients' business models and the permissions they had been granted from the Financial Conduct Authority (FCA). They had all agreed the basis on which the engagement was performed with the client and made the client aware of the firms' reporting responsibilities to the FCA.

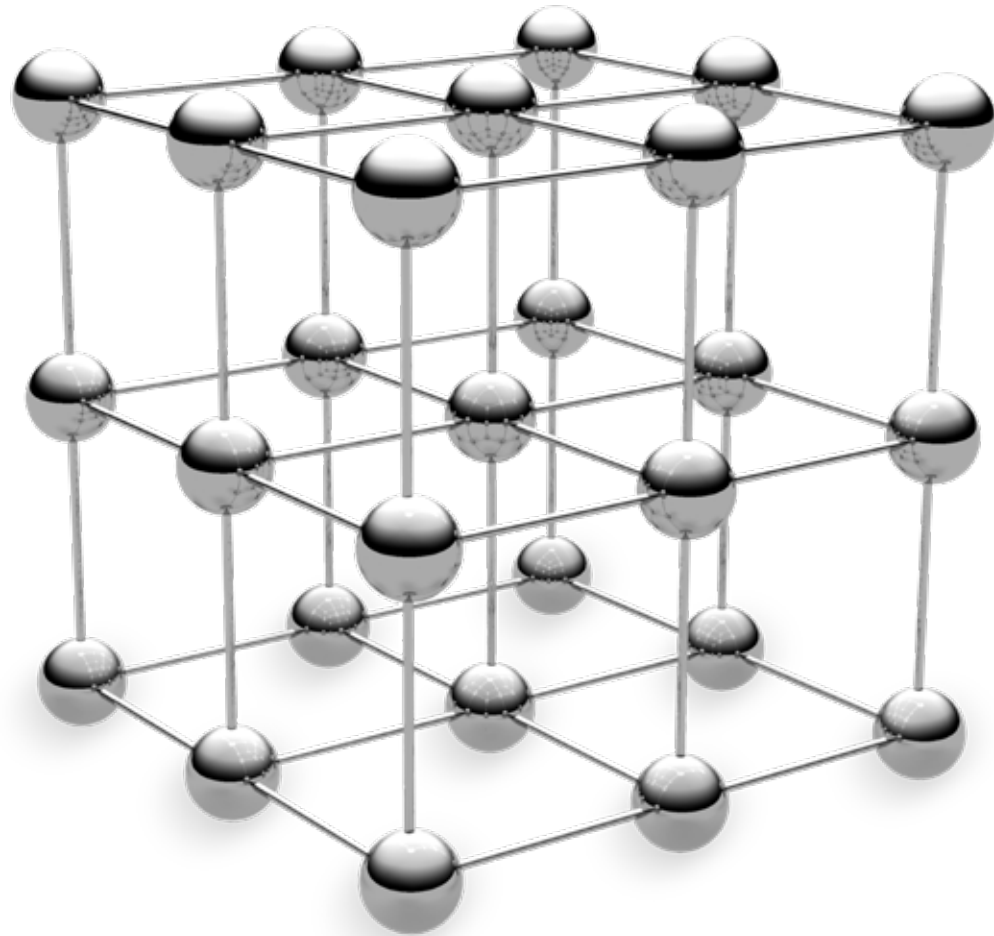
We found the firms had put appropriate procedures in place to plan their assignments, document the work performed and carry out a quality review before signing the report.

KEY FACTS: OTHER REPORTS

We found that many of the firms reviewed sign other assurance type reports such as reports on grant expenditure and estate agents' clients' money reports.

They all had appropriate engagement letter templates and procedures to ensure that members of the team were independent and that the work was reviewed. **94%** monitored the competence of the teams to carry out the assignments and ensured they undertook appropriate continuing professional development (CPD). **88%** had documented procedures and/or checklists for each type of assignment.

Only **41%** carried out cold file reviews of these assignments as part of their Practice Assurance compliance review.



WHAT OUR FIRMS TOLD US

ENGAGEMENT TEAMS, INDEPENDENCE AND CPD

IERs are usually done by engagement teams that are charity audit specialists.

We are not keen on non-audit professionals doing assurance assignments and would always make sure there is someone with relevant experience on the team.

A wide variety of specialist training is provided both in-house and via external courses. All charity specialists have to undertake mandatory training.

Each specialist sector has a 'sector head' who oversees CPD in that sector.

The firm has established relationships with a number of managing agents and prefers to work through them. We have recognised the risk that an appreciable proportion of work comes from these.

All staff are contacted when a new assurance client is taken on to ensure no conflicts.

PROCEDURES AND REVIEW PROCESS

All CASS engagements are subject to a second partner review and competency is assessed at this stage.

A grant issuing body may prescribe the way the report should be drafted which may not fit into the firm's framework for that type of work. If that happens the work programme will be tailored.

There is increased emphasis on risk assessment on SRAAR engagements and ensuring there is partner involvement at the planning stage.

Procedures manuals set out broad requirements for all areas. Standardised work programmes used.

Standard working papers and checklists are pre-populated with cross references to relevant Charity Commission directives.

There is a detailed query sheet in the work programme with responses and sign-offs.

Key correspondence with the client is embedded in the work programme.

Annual cycle of internal quality reviews carried out. All assignment types are covered on a cyclical basis.



HINTS AND TIPS

Ensure that an appropriate engagement letter template is used and that it covers all specialist services provided to the client. Keep this under review and update it periodically. View [ICAEW's engagement letters helpsheet](#).

Carry out periodic cold file reviews of assurance and other reports to ensure your procedures are being followed and regulations are being complied with.

Ensure you and your staff understand when you need to report matters of material significance to The Charity Commission. [Access useful resources and information on this topic](#).

Document all work carried out and reviews of that work. Use of specialist work programmes will help with this.



MONITORING REVIEW 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 2021.

In 2021 we carried out 1,243 Practice Assurance reviews (2020: 1,681).

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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Onsite *	19%	17%	62%	57%	14%	20%	5%	6%	488	497
Desktop reviews of information provided by firms	26%	36%	63%	51%	9%	9%	2%	4%	263	348
Other desk-based reviews	100%	100%	-	-	-	-	-	-	186	563
New firm reviews	98%	93%	-	4%	1%	2%	1%	1%	235	108
Telephone reviews	25%	36%	66%	59%	6%	4%	3%	1%	71	165

* Most of these reviews were remote from 15 March 2020, but we started to carry out some onsite reviews again at the end of 2021.

In 2021, the Practice Assurance Committee (PAC) considered 24 reports (2020 - 34 reports). Some of the reasons for these reports are listed below:

- Seven of the firms failed to address issues raised at their previous reviews with significant weaknesses in their approach to compliance with the Money Laundering Regulations, and in some cases compliance with the Clients' Money Regulations.
- Three firms had significant breaches of the Clients' Money Regulations.
- Four firms did not respond to the findings raised at our review.
- Four firms were using the description 'Chartered Accountants' when they were not eligible to do so.
- Two cases related to ICAEW members being in public practice without a Practising Certificate.
- Other factors resulting in a report included signing an Independent Examination report when the client required an audit, providing a self-insured tax fee protection scheme and referring clients to restricted financial advisers without appropriate consideration that the needs of the client would be met.

The PAC issued penalties of between £175 and £3,800 to 14 of these firms. Six firms were referred to ICAEW's Professional Conduct Department for further investigation.



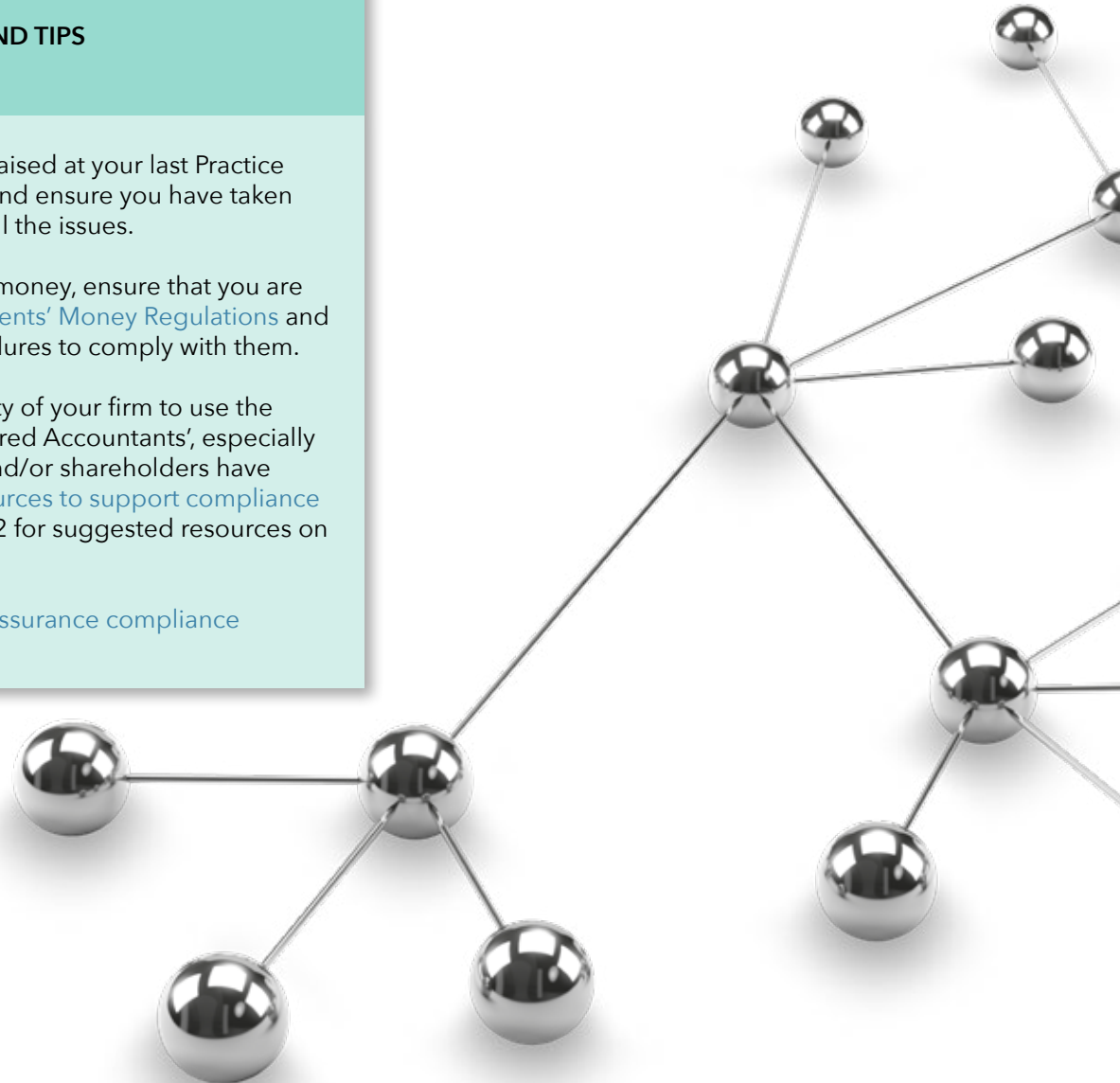
HINTS AND TIPS

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

If you hold clients' money, ensure that you are familiar with the [Clients' Money Regulations](#) and have robust procedures to comply with them.

Review the eligibility of your firm to use the description 'Chartered Accountants', especially if your principals and/or shareholders have changed. See [resources to support compliance](#) on pages 11 and 12 for suggested resources on these topics.

View our [Practice Assurance compliance review helpsheet](#).





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	2021 ranking	2020 ranking
The Money Laundering Regulations	409	33%	1	1
Clients' Money Regulations	170	14%	2	2
Basis of fees and complaints, and engagement letters	116	9%	3	3
ICAEW records and annual return	107	9%	4	5
Data Protection	51	4%	5	4
Referral fees and commissions	46	4%	6	7
Professional Indemnity Insurance	45	4%	7	9
Eligibility	44	4%	8	6
Code of Ethics	29	2%	9	11
DPB boundary issues	20	2%	=10	10
Notifying ICAEW of changes	20	2%	=10	8
Other isolated findings	65	5%		

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



MOST COMMON FINDINGS

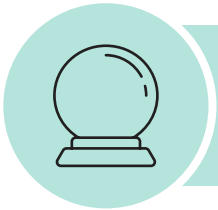
Alongside each finding, we have listed examples of ICAEW resources or other guidance that we recommend firms use to improve compliance in these areas.

	WHAT WE FIND	RESOURCES TO SUPPORT COMPLIANCE
THE MONEY LAUNDERING REGULATIONS	We publish an annual report on anti-money laundering (AML) which has details on the findings from our monitoring reviews together with information on our regulatory role and how we fulfil it. We recommend reading the report for a breakdown of AML compliance issues and relevant available resources.	<ul style="list-style-type: none"> • Read the 2021/22 Anti-money Laundering Supervision Report • Watch our AMLbites videos • Watch recordings of our AML webinars • There is more information on AML on our website at icaew.com/moneylaundering
CLIENTS' MONEY REGULATIONS	<p>Compliance with the Clients' Money Regulations remains one of the top areas. We identified:</p> <ul style="list-style-type: none"> • 75 firms that did not have a bank trust letter to acknowledge the status of the clients' money bank accounts; • 43 firms which had not carried out and documented an annual clients' money compliance review; and • 32 firms not using designated clients' money accounts when firms held over £10,000 for more than 30 days. 	<ul style="list-style-type: none"> • Use our Clients' Money Regulations helpsheet • Read our Clients' Money FAQs • Use our Clients' Money Regulations compliance review checklist
BASIS OF FEES AND COMPLAINTS, AND ENGAGEMENT LETTERS	<p>We found that 108 firms had not informed their clients of the basis on which fees are charged and the complaints procedure, including the client's right to complain to ICAEW.</p> <p>You do not have to issue engagement letters to clients, but the above two matters must be communicated to all clients in writing.</p> <p>We also found issues where firms were not keeping their engagement letters up to date, did not cover specialist services and/or were incorrectly informing clients that they were able to carry out work requiring a DPB (Investment Business) licence when this was not the case.</p>	<p>You can find a sample engagement letter template at icaew.com/engagementletters. If you don't want to issue an engagement letter, you could communicate these matters to clients in any of the following ways:</p> <ul style="list-style-type: none"> • a standard terms of business letter; • a brochure given to the client; or • a paragraph in the body of initial correspondence.

	WHAT WE FIND	RESOURCES TO SUPPORT COMPLIANCE
<p>ELIGIBILITY ISSUES, ICAEW RECORDS, ANNUAL RETURN AND NOTIFYING ICAEW OF CHANGES</p>	<p>Errors in firms' annual return data and/or ICAEW records are in fourth place in the top findings.</p> <p>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 should take care to ensure you complete your annual return form correctly. If you are unsure about how to answer any question you should consult the guidance notes and/or consult our helpline +44 (0)1908 546 372.</p> <p>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.</p> <p>HOW TO NOTIFY US Firms that work 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 via the appropriate forms.</p> <p>There are two useful forms which should be emailed to regulatorysupport@icaew.com</p> <ul style="list-style-type: none"> • 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 <p>Firms not working in the specialist areas of audit, ATOL reporting, DPB (Investment Business) and probate – please tell our members information team about any changes to your firm structure in writing, by emailing firms.admin@icaew.com</p> <p>You can find full details of how to notify us of changes, including forms and contact details, at icaew.com/firmrecord</p> <p>Failure to notify us of changes to your practice can also lead to eligibility issues (number 8 in this year's table).</p> <p>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</p>	<ul style="list-style-type: none"> • Access our Annual return guidance • Annual return FAQs • Read our Eligibility considerations and case studies • Read our guidance on When you can use the term 'Chartered Accountant'

	WHAT WE FIND	RESOURCES TO SUPPORT COMPLIANCE
<p>CODE OF ETHICS; REFERRAL FEES AND COMMISSIONS</p>	<p>We identified gaps in accounting for unregulated commission and/or referral fees at 33 firms. Typically, this is where firms have not told their clients in writing how much they received and/or obtained their consent to retain it.</p> <p>The ICAEW Code of Ethics, sections 330.12 A1 to 330.14 A1 set out your requirements to:</p> <ul style="list-style-type: none"> • notify all relevant clients in writing of the amounts you have received; • obtain their written consent to retain it; and • treat the amounts received as clients’ money and bank them in a client account until you have permission to retain the money. <p>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.</p>	<ul style="list-style-type: none"> • Visit icaew.com/engagementletters for sample engagement letter wording to help with compliance in this area. • Read the ICAEW Code of Ethics • Use our helpsheet Introductions to finance advisers
<p>DPB BOUNDARY ISSUES AND REFERRALS TO FINANCIAL ADVISERS</p>	<p>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.</p> <p>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 by making an assessment of 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.</p> <p>You should also be aware that some types of referral to financial advisers may require a DPB (Investment Business) licence.</p> <p>We found issues relating to referrals at 56 firms.</p>	<ul style="list-style-type: none"> • Read our booklet Regulation deconstructed • Read our DPB (Investment Business) Traffic Light Guide • Use our helpsheet Introductions to financial advisers • Watch our DPB (Investment Business) webinars

	WHAT WE FIND	RESOURCES TO SUPPORT COMPLIANCE
PROFESSIONAL INDEMNITY INSURANCE (PII)	<p>The main finding in this area related to firms being inadequately insured. You need to make sure your firm's PII meets ICAEW's minimum requirements. The cover should be at least two and a half times your gross fee income for the accounting year preceding the start of the policy (subject to a minimum requirement of £100,000 and a maximum of £1.5m). The policy needs to be with a participating insurer who has agreed to meet the requirements of ICAEW's minimum policy wording. You can view a current list of approved insurers at icaew.com/pii</p> <p>There were also a number of findings relating to notifications not being made to the insurers and errors on proposal forms. Both could result in problems should a claim arise.</p>	<ul style="list-style-type: none"> • Access ICAEW's List of participating insurers • Read our Guidance for firms on arranging cover • Watch our PII webinar: how to avoid expensive PII mistakes
DATA PROTECTION	<p>The main finding in this area related to 44 firms that had not registered with the Information Commissioner's Office (ICO). We also found 11 firms that had still not put adequate procedures in place to meet the requirements of the General Data Protection Regulation (GDPR).</p>	<ul style="list-style-type: none"> • Access the ICAEW's GDPR hub

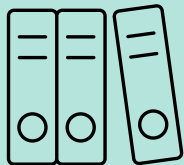


FUTURE AREAS OF FOCUS

OUR AREAS OF FOCUS FOR 2022 PRACTICE ASSURANCE ONSITE REVIEWS ARE:



Professional indemnity insurance



Complaints

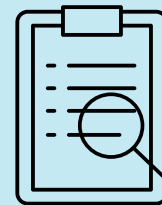


Client satisfaction

OUR FOCUS WILL BE ON HOW THE FIRM:



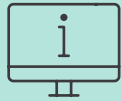
Identifies and monitors issues and risks



Deals with complaints



Obtains and acts on feedback from its clients



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
- Practice Assurance top tips and guidance
- Practice resources including thought leadership and professional guidance
- Technical, ethical and practical helpsheets
- Practice helpsheets
- Technical information
- **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 issues. Our technical advisory team offer advice on all aspects of complying with the Money Laundering Regulations.
- Courses to help you with your continuing professional development
- Communities
- ICAEW library service
- Annual return guidance
- Raise a money laundering concern
- Core accounting and tax service
- Anti-money laundering resources
- Anti-money laundering supervision
- Regulatory news hub

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.

OUR ROLE AS AN IMPROVEMENT REGULATOR

Our mission is to strengthen trust in ICAEW Chartered Accountants and firms. We do this by enabling, evaluating and enforcing the highest standards in the profession.

ICAEW's regulatory and conduct 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 (PSD) and overseen by the 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.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 195,300 members and students around the world.

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 around 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.

ICAEW is a founding member of Chartered Accountants Worldwide (CAW), a global family that connects over 1.8m chartered accountants and students in more than 190 countries. Together, we support, develop and promote the role of chartered accountants as trusted business leaders, difference makers and advisers.

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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