

Piecing it all together

PRACTICE ASSURANCE MONITORING 2019

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Areas of focus

Every review covers a wide range of areas of a firm's practice, some of our reviews focused on:

- compliance with the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR17);
- preparation for, and compliance with the General Data Protection Regulation (GDPR).

Although we discuss these areas on all our reviews, we carried out more detailed focused reviews at regional firms, generally those with over £1m practice income. At our larger firms we also looked at their gifts and hospitality policies and procedures.

MLR17

We carried out focused reviews at 189 firms, looking at their compliance with the MLR17. These reviews included:

- discussions with the firm's money laundering reporting officer (MLRO);
- sample file reviews;
- staff interviews;
- evaluation of the firm's AML procedures, including checklists;
- review of whole-firm risk assessments;
- review of AML compliance reviews; and
- review of training materials.

Across all our firms we identified examples of good practice.

MLROs had clearly understood their responsibilities and undertaken suitable training to support them in their role. Many had deputies in other offices to support them.

Whole-firm risk assessments

What our firms told us / risks identified by whole-firm risk assessments:

'We perceive overseas clients as the most significant risk, as we are less likely to meet those clients face-to-face or on a regular basis and there will be cultural and other differences.'

'We have no particular high risk areas as our client base is not in areas of concern eg tax strategies, unknown sources, geographies in a weaker AML regime. We do not let clients use our clients' money bank account unless for very specific reasons relating to accounting services provided.'

'The risks we have identified as high before mitigation are clients with PEP involvement, insolvency scenarios where we may fail to request consent to continue with a transaction and insolvency scenarios where we may fail to investigate antecedent transactions.'

'Higher than normal risks may be around payroll services, corporate finance work, trust and tax work, cash-based businesses, high value transactions by some clients, clients operating in higher risk industry sectors, clients not met face-to-face and staff awareness, especially training around SARs.'

Procedures

Most firms use a commercially available AML manual and checklists, with processes to recognise PEPs and controls to prevent any work being started before these procedures are complete.

We identified a few areas for improvement where firms don't follow a commercially available AML manual or checklists and have tailored their own CDD procedures, such as: updating them for MLR17, making sure they cover all service lines, including PEP checks in checklists.

Many used electronic checking software / systems as part of their CDD procedures. It's important when using electronic checks that firms clearly understand which databases the system is checking against and whether adequate checks are carried out and follow up on exceptions within the reports. When using electronic checks, firms should carry out their own due diligence to ensure information is derived from multiple databases and staff are adequately trained to interpret the results. Firms should have clear procedures for staff to follow if electronic checks return exceptions.

Staff and training

Our staff interviews confirmed that all relevant staff, including new joiners, had undertaken appropriate regular training.

Many firms supplement this by asking staff to sign an annual awareness form or certificate to confirm that they understand the firm's procedures and their own obligations.

Monitoring and reporting

Overall, we found that our firms had sufficiently robust and challenging compliance reviews covering both new and existing clients and all service lines. They used the results of the reviews to improve procedures.

MLRO's were confident that staff were making the necessary suspicious activity reports.

MLR hints and tips

You can find further guidance at [icaew.com/moneylaundering](https://www.icaew.com/moneylaundering) and for the following specific areas on:

- how to perform a firm-wide AML risk assessment
- AML compliance review checklist
- ICAEW client screening service to supplement CDD
- Decision to accept appointment helpsheet
- New client information helpsheet
- ICAEW AML service

GDPR

What our firms told us they have done in preparation for GDPR

'We have set up a working group headed by a principal of the firm with representatives from IT, HR and marketing. Our aim is to prepare a report, draft policies and then use an external consultant to review what we have done to make sure they are fit for purpose.'

'We are using ICO checklists and have broadly identified the areas we need to consider.'

'We carried out a data mapping exercise covering all departments across the business recording what data we hold, what system it is stored on, where it came from and who we share it with. We are currently going through a process of amending privacy notices.'

Risks identified by some of our firms in relation to GDPR

'We are concentrating on the risks in relation to holding the data too long or not long enough, the definition of 'client sensitive information' and generally reviewing our data security.'

'We need to decide how we will cleanse old data from our systems, for example, old payroll records with employee details where employees have left the client.'

'Our main concerns are getting consent for e-shots, encryption of data on USB sticks and how to deal with sending personal tax returns to clients, as these are currently sent as an unprotected email attachment.'

'All our staff are aware of the need to escalate potential breaches to the Data Protection Officer (DPO).'

'We have discussed what constitutes a breach with staff and reiterated to them the need to inform the DPO promptly of any breaches which might occur. We have written procedures in place that outline when we need to inform our client and if necessary, the ICO.'

GDPR hints and tips

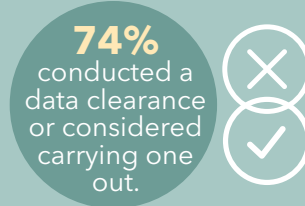
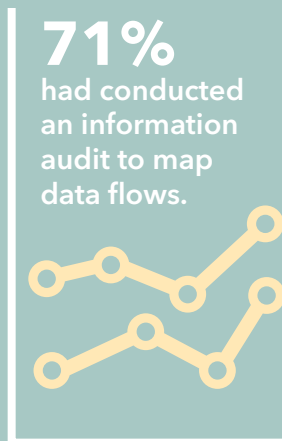
You can find further guidance at [icaew.com/GDPR](https://www.icaew.com/GDPR) and specific helpsheets are available on a range of topics such as:

- data protection
- data processor or data controller?
- GDPR and privacy shield
- client files
- communicating safely with clients
- data breaches
- data mapping and documentation
- lawful basis for processing
- rights of an individual
- IT systems compliance review

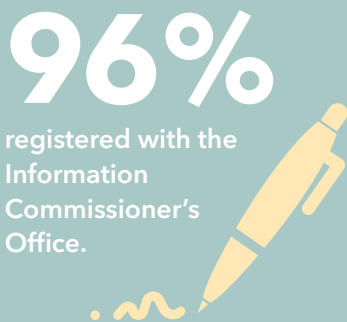
GDPR key facts

We discussed GDPR in more detail with 197 firms.

GOOD



COMMON



ROOM FOR IMPROVEMENT

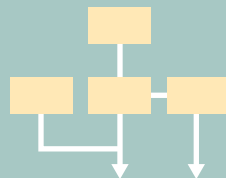


* Article 5 sets out the seven key principles (lawfulness, purpose limitation, data minimisation, accuracy, storage limitation, integrity and confidentiality and accountability) in relation to data held.



94%

had considered updating or already updated letters of engagement.



84%
had procedures in place to deal with subject access requests.



87%

of firms felt that they had appropriate action plans in place to mitigate any risks identified.

14%

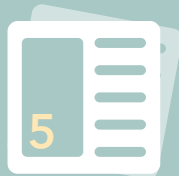
who had not appointed a data protection lead or DPO internally, planned on using an external data protection adviser.



85%
had implemented a data protection policy.

87%

had considered the requirements of article 5 of GDPR*



of firms told us that they were aware of the eight individuals' rights**

86%

had procedures in place to identify, report, manage and resolve any personal data breaches.



had not fully considered how they will monitor compliance with the regulations on an ongoing basis.

33%

needed to consider what information is collected from their websites and how it is processed.



** The right to be informed, to access, to rectification, to erasure, to restrict processing, to data portability, to object and the rights related to automated decision making including profiling.

GIFTS AND HOSPITALITY

We reviewed gifts and hospitality procedures on larger firm visits and found that, while some of our firms are yet to fully document formal policies, others had a range of policies covering both audit and non-audit clients.

Most firms adhere to the general principle that gifts and hospitality must not be accepted or given if they could compromise the integrity of, or improperly influence the recipient's behaviour. They have policies requiring partners and staff to identify when they are placed in a position where objectivity or independence is at undue risk, or impaired, or perceived to be impaired.

Gifts

Some of our firms are yet to formalise a policy around accepting and receiving gifts from clients. Others typically have policies that clearly define what is acceptable for both audit and non-audit clients.

For audit clients, the policies we reviewed ranged from firms strictly prohibiting the acceptance or giving of gifts, to firms having no defined monetary limits. The ranges of monetary limits for the acceptance of a gift ranged from £25 from an audit client, and gifts given up to £100.

Generally, monetary limits, where imposed, are increased in relation to non-audit clients. Again, we found a range of limits: from the offer or receipt of a gift, to or from a third party, only being permitted if the gift is a small branded item, to gifts accepted / given between £250 to £1,000 requiring approval, but gifts over £1,000 being prohibited.

Hospitality

Again we found some of our firms do not have a formal policy in place for receiving or providing hospitality to clients / potential clients. Others have clearer policies around hospitality for both audit and all other clients, but the range of acceptable limits was very broad.

For audit clients we found a range of £25 to £200 per head. Some firms did not publish monetary limits but had clear procedures in place for the approval of hospitality, where infringement of the policy / not consulting before receiving or accepting hospitality would be a breach of the firm's procedure and linked to disciplinary action. The assessment of whether the hospitality is appropriate is based on the premise that a reasonable and informed third party would not consider hospitality to be inappropriate.

The limits for all other clients ranged significantly, between £500 per head to £10,000 per client and some firms had no monetary limits, but looked at whether the hospitality is reasonable.

2018 – the year in figures

This report is a summary of the key findings and areas of best practice from Practice Assurance reviews carried out by ICAEW's Quality Assurance Department (QAD) in 2018.

ICAEW carried out 2,030 Practice Assurance reviews in 2018 (2017 – 2,266). All references to resources in this report can be found at icaew.com/practiceassurance

VISIT OUTCOMES

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	
On-site	16%	22%	61%	60%	14%	13%	9%	5%	900	1,001
Desktop review (DTRV)	64%	63%	29%	29%	5%	4%	2%	4%	725	693
New firm webinar (NFW)	91%	97%	7%	2%	0%	1%	1%	0%	226	194
Telephone	36%	33%	56%	62%	6%	4%	2%	1%	179	378

2018

ICAEW concluded fewer on-site visits 16% (2017 – 22%) with no matters requiring action.

A higher percentage of on-site visits were reported to the Practice Assurance Committee (PAC), 9% (2017 – 5%).

Out of the firms the PAC referred to ICAEW's Professional Conduct Department for further investigation, 46% (30 cases) related to matters that we raised on earlier reviews. Although we remind firms to take action following our reviews, this is still an area of concern. If you would like a copy of our findings from your last visit, email us at qadfaqs@icaew.com.

The PAC is concerned that firms underestimate the impact of not complying with ICAEW regulations. Although a very small number from the thousands we review are subject to disciplinary action, the time and costs involved can be significant.

Examples of fines and costs to firms in 2018 include:

- Practising without a practising certificate – reprimand, £1,500 fine, £2,492 costs.
- Non-compliance with Clients' Money Regulations – reprimand, £5,000 fine, £3,605 costs.
- Non-compliance with PII regulations – reprimand, £2,300 fine, £1,568 costs.
- Failure to respond, incorrect completion of the annual return, failure to comply with previous assurances – reprimand, £10,000 fine, £4,005 costs.
- Failure to comply with previous assurances – reprimand, £5,000 fine, £8,430 costs.

ANALYSIS

The table below shows the number of firms with findings in key areas.

Finding type	No. of firms	% firms	2018 ranking	2017 ranking
MLR17	911	38%	1	1
Clients' Money Regulations	315	13%	2	2
Data Protection Act and computer procedures	291	12%	3	3
Annual Return	104	4%	4	5
Eligibility	87	4%	5	4
Notifying ICAEW of changes	88	4%	6	10
Professional Indemnity Insurance	77	3%	7	6
Commission received	78	3%	8	7
Companies Act and other disclosure requirements	53	2%	9	7
Letters of engagement and terms of business	56	2%	10	11
Other isolated findings	360	15%		

MLR17

- Our main findings relate to firms' anti-money laundering procedures. We looked at this as an area of focus in 2018 and our key findings are above.

CLIENTS' MONEY

The Clients' Money Regulations (CMR) remain the second most frequent finding category. A total of 315 firms had at least one area of non-compliance. The most significant areas of concern were:

- Not obtaining a bank trust letter to acknowledge the status of the clients' money bank accounts (158 firms).
- Not conducting an annual clients' money compliance review (85 firms).

- Not using designated accounts when firms held over £10,000 for more than 30 days (60 firms).
- The highest new finding related to 35 firms holding clients' money that did not relate to the accountancy service they were providing, in contravention of regulation 8A.

Regulation 8A came into effect on 1 January 2017. It aims to ensure the firm's client bank account is being used for a lawful and legitimate purpose and bona fide transactions. Payments into and out of the firm's client bank account must relate to an accountancy service that is (or has been or will be) provided by the firm.

Access the Clients' Money Regulations and helpsheet at [icaew.com/clientsmoney](https://www.icaew.com/clientsmoney)

DATA PROTECTION

The data protection and computer procedures findings mainly related to:

- 148 firms and / or their connected entities that had not registered or registered incorrectly with the Information Commissioner's Office; and
- 115 firms that had not started to consider or needed to prepare for the General Data Protection Regulations (GDPR).

ANNUAL RETURN

We have seen an increase in errors in firms' annual return data. 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.

Firms not working in the specialist areas of audit, ATOL reporting, DPB (Investment Business) and probate. Please inform our members records team about any changes to your firm structure in writing, by post or email, members.records@icaew.com

Firms working in the specialist areas of audit, ATOL reporting, DPB (Investment Business) and probate. Please inform our regulatory support team of any changes to your firm structure within 10 business days via the appropriate forms.

There are two useful forms for this purpose:

For any changes to your firm structure, please complete and return the standing data changes form.

For details of any mergers and acquisitions, please complete and return the mergers and acquisitions application form.

Full details of how to notify us of changes, including forms and contact details are available from [icaew.com/firmrecord](https://www.icaew.com/firmrecord)

Failure to notify us of changes to your practice can also lead to eligibility issues. 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](https://www.icaew.com/firmrecord)

One last reminder, use £ when you complete your annual return, not £000.

An introduction to AML supervision by ICAEW

We have taken the opportunity to summarise ICAEW's role as a supervisory authority and key regulatory changes over the past 12 months, as well as pointing to ICAEW's AML resources. When the UK Government transposes the Fifth Anti-Money Laundering Directive into UK law, ICAEW will be required to publish an annual report setting out our AML supervisory activity and review outcomes.

ICAEW AS A SUPERVISORY AUTHORITY

ICAEW is a supervisory authority for accountancy service providers under Schedule 1 to MLR17. HM Treasury recognises the Practice Assurance scheme as a suitable means for supervising our member firms. Member firms that provide trust and company services as part of their main accountancy practice are supervised by ICAEW for both the accountancy services and trust and company services.

Firms that don't meet the definition of a member firm but are accountancy service providers or trust and company service providers can apply to ICAEW to join our Practice Assurance scheme and register for anti-money laundering supervision as long as the firm has at least one principal who is an ICAEW member or ICAEW affiliate.

It is important that you check that your firm meets ICAEW's member firm definition and, if it doesn't, you will need to apply to ICAEW for AML supervision.

REGULATORY CHANGES

During 2018, firms should have addressed a number of regulatory changes.

Have you obtained your criminal record checks?

Since 26 June 2018, all our supervised firms have been required to take reasonable care to ensure no-one is appointed as a beneficial owner, officer or manager (BOOM) without ICAEW's approval.

ICAEW can only approve a BOOM if that individual has no relevant unspent criminal convictions and to evidence this, we require all BOOMs to obtain criminal record check certificates. We will need to see the original certificates at your next on-site Practice Assurance review or, for selected firms, we may ask you to submit them by post. Firms must also exercise reasonable care to ensure no BOOMs continue in this capacity within the firm if they are criminally prosecuted.

As at 28 February 2019, we have confirmed that, out of the 21,000 BOOMs in our supervised population, 5,000 have obtained DBS certificates.

Visit [icaew.com/criminalchecks](https://www.icaew.com/criminalchecks) for more definitions, information and FAQs.

HMRC's TCSP register - is your firm on it?

Under Regulation 54 of MLR17, HMRC must maintain a register of all firms that provide trust or company services. If you perform TCSP work when not on the register, you will be subject to disciplinary action. ICAEW has notified HMRC of all the firms it supervises that have confirmed with us that they perform TCSP work (there are over 7,500).

For definitions and details of how ICAEW identifies the relevant firms to include on the register, visit [icaew.com/tcsp](https://www.icaew.com/tcsp)

Firm-wide risk assessments

MLR17 requires firms to take the appropriate steps to identify and assess the risk that they could be used for money laundering, including terrorist financing. Your firm-wide risk assessment needs to address all aspects of business and identify the areas that are most at risk and this must be properly documented. This will enable you to focus your resources on the areas of greatest risk.

ICAEW has published help and guidance on firm-wide risk assessments and firm-wide risks at [icaew.com/moneylaundering](https://www.icaew.com/moneylaundering)

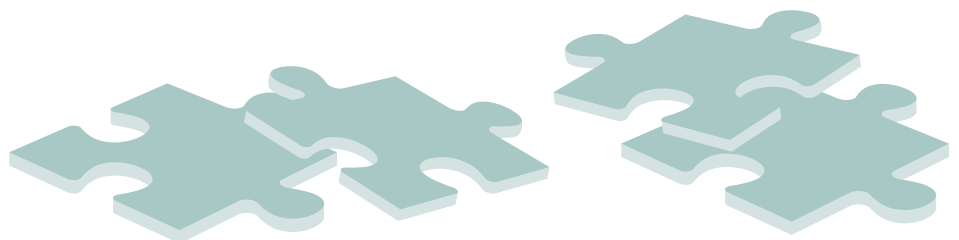
AML RESOURCES

New AML webpages
([icaew.com/moneylaundering](https://www.icaew.com/moneylaundering))

We have re-launched our AML webpages, clearly signposting our guidance and resources, to help your firm comply with the Money Laundering Regulations 2017. There is a wealth of information available on risk assessments, client due diligence and reporting.

Anti-money laundering - the essentials

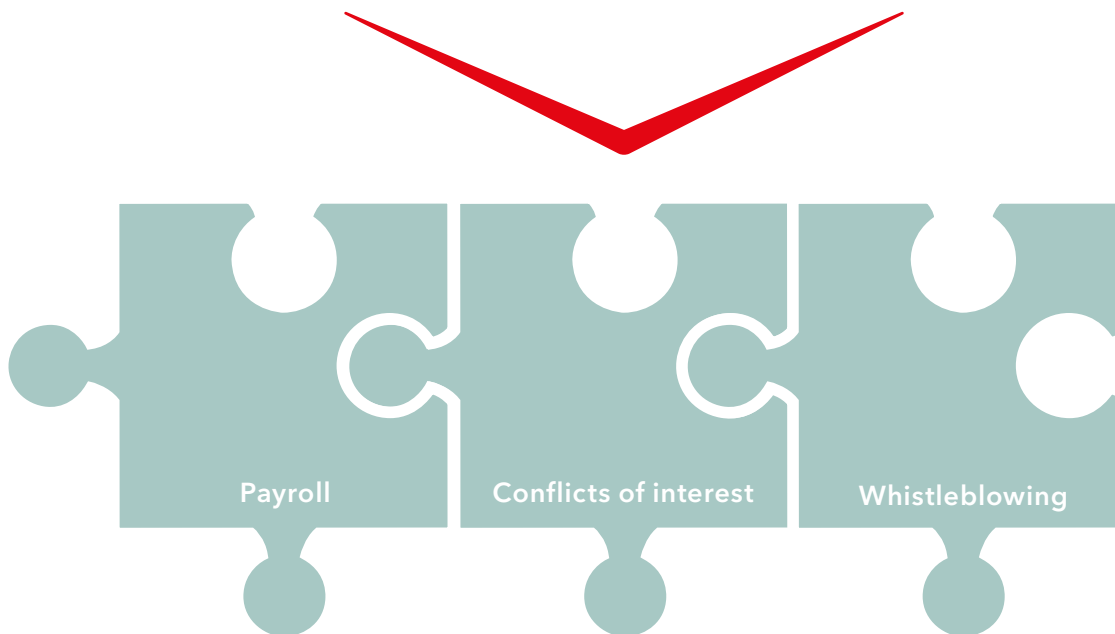
Anti-money laundering - the essentials is an ICAEW e-newsletter to help you keep up-to-date on the key changes in the money laundering regime and help inform your risk assessment, policies and procedures. We email ICAEW money laundering reporting officers when a new issue is available. It's also available to all ICAEW members. Please select the anti-money laundering topic from your list of preferences and we will notify you by email when a new issue is available.



Future areas of focus

The areas of focus for our 2019 Practice Assurance on-site visits are:

2019 Practice Assurance ON-SITE FOCUS AREAS



Payroll

The nature of the services you provide, how you engage with clients, AML procedures, competency, procedures and payments.

Conflicts of interest

How your firm identifies conflicts, manages and monitors them on an ongoing basis.

Whistleblowing

What policies and procedures does your firm have? Are staff aware of them and would they be happy to speak up? How does your firm monitor feedback?

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)

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. You can call us to receive specialist help on a wide range of topics including ethical, technical and legislative. In particular, the Technical and Ethics Advisory Helpline offers advice on all aspects of complying with the Money Laundering Legislation. Our advisers can answer calls 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 can be found at [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)

Conflicts of interest - [icaew.com/conflicts](https://www.icaew.com/conflicts)

Whistleblowing - [icaew.com/whistleblowing](https://www.icaew.com/whistleblowing)

ICAEW's regulatory role is distinct from its representative role. Managed by our Professional Standards department, we protect the reputation of ICAEW, our members and the chartered accountancy profession. We ensure our students, members and firms act with integrity and are competent. Our role is to:

- authorise our members and firms to undertake work regulated by law: audit, local audit, investment business, insolvency work, and probate;
- monitor firms and insolvency practitioners to ensure they undertake work correctly and to the highest standards;
- investigate complaints and hold members and firms accountable where they fall short of standards;
- lobby and comment on proposed changes to the law and regulation affecting our stakeholders; and
- provide guidance, advice and award-winning training films to ensure our stakeholders comply with laws, regulations and professional standards.

There are over 1.8m 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 180,000 of these are ICAEW Chartered Accountants and students. 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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