



PRACTICE MONITORING  
ANNUAL REPORT 2016

2016

A black and white photograph of a cityscape at night. The scene is dominated by a large, illuminated bridge with a distinctive curved, lattice-like structure on the right side. The bridge spans across a body of water, which reflects the lights from the bridge and the surrounding buildings. In the background, there are several buildings, including one with a prominent dome. The sky is dark with some light clouds. The overall mood is modern and urban.

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# INTRODUCTION

We are pleased to present our annual report for 2016. As in previous years, this report aims to provide transparency over our work and includes:

- An overview of the activities of ICAS Practice Monitoring during 2016;
- Key messages and detailed findings arising from monitoring visits; and
- Additional news and information for 2017.

**We hope that you find this useful in considering how effectively your firm is complying with regulatory requirements. We encourage you to share the report with your colleagues.**

If you have any comments or questions please contact us on [auditandpracticemonitoring@icas.com](mailto:auditandpracticemonitoring@icas.com).

# WHAT WE DO

## Background: Developmental Regulation

We aim to deliver Developmental Regulation. This means that our Practice Monitoring regime is designed to both:

- support the work of ICAS Practising Certificate holders and their firms; and
- uphold standards and provide re-assurance to the public that firms are complying with regulatory requirements.

Our primary role is to work **with**, and to **support**, firms to make any improvements required.

We will take regulatory action in the most serious of cases but we see this as being exceptional.

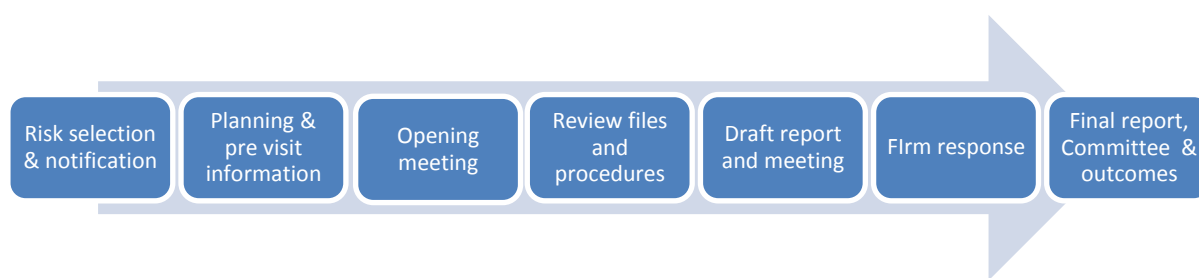
## What we review

Practice Monitoring reviews all areas of accountancy practice, except for audit and insolvency activities, which are covered by our Audit and Insolvency Monitoring teams, and have separate annual reports.

We risk assess firms to decide on the timing and frequency of visits, and we use different delivery methods appropriate to the size and types of practices. Most firms will receive an onsite visit, however we also conduct desktop or telephone reviews for some smaller practices assessed as low risk.

## How we review

Our visit process is, as follows, for on-site visits:



For desk-top reviews, firms submit their files and procedures for the monitoring team to review off-site and a telephone call is held with the firm to go over the findings, after which the draft report is sent to the firm. In the case of telephone reviews, no files or procedures are reviewed and the review consists of a telephone discussion with the firm, followed by the issue of a report.

## Governance changes

From 17 April 2016, ICAS simplified the committee structure that dealt with the various practice licences and now one committee, the Authorisation Committee, is responsible for all regulatory licences and monitoring visits, including the granting of Practising Certificates and practice monitoring visits. This Committee reports to the Regulation Board which is responsible for setting regulatory policy.

This Committee has operated well during 2016. Reports where no follow up action is needed are now delegated to the monitoring teams to clear, subject to regular oversight by the Committee. This has sped up the closedown process. The Committee reviews, and makes the final decision on, all reports where follow up action is required.

## Anti-money laundering (AML) initiatives

As highlighted in the Key Messages section later in this report, we made a number of important changes to our approach in 2016, as part of our developmental approach to regulation. This has proved successful and firms are demonstrating improvements and clearing our visit process faster.

For more information about the Practice Monitoring team, and the monitoring visit process, please search for "[practice monitoring](#)" at [icas.com](http://icas.com).

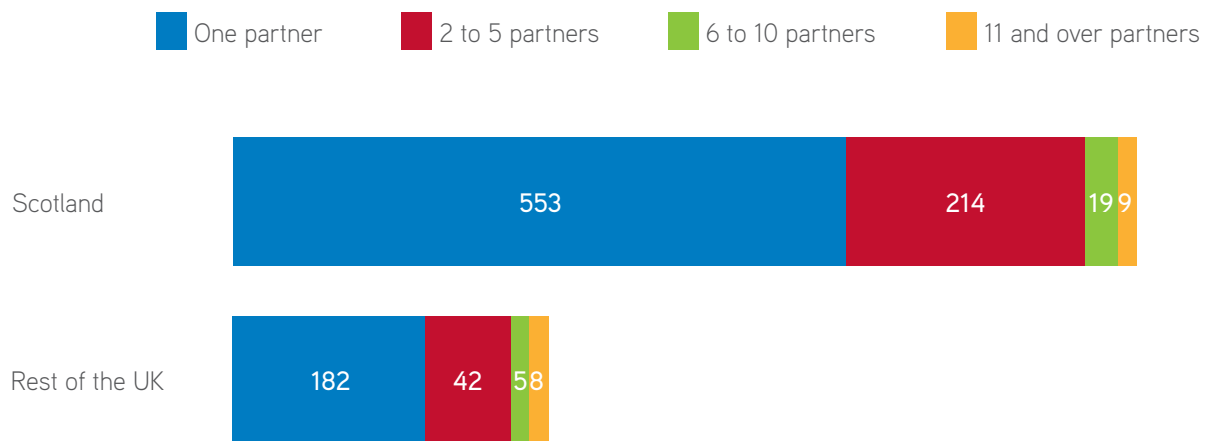
### Interim calls

During 2017 we will introduce a new procedure that will enable us to keep in touch with firms who are potentially not due a practice monitoring visit for a number of years. We will conduct an informal phone call with a sample of firms in the intervening period between visits, to ensure that these firms are staying on track with compliance and are keeping abreast of changes. If your firm is selected for an interim call, you will be notified in advance.

### Who we review

At the 2016 year-end, ICAS had 1,037 firms (2015: 1,058), of which 1,032 are based in the UK. 220 of these firms were subject to a Practice Monitoring review in 2016. The UK firms are analysed by size below:

### Firms



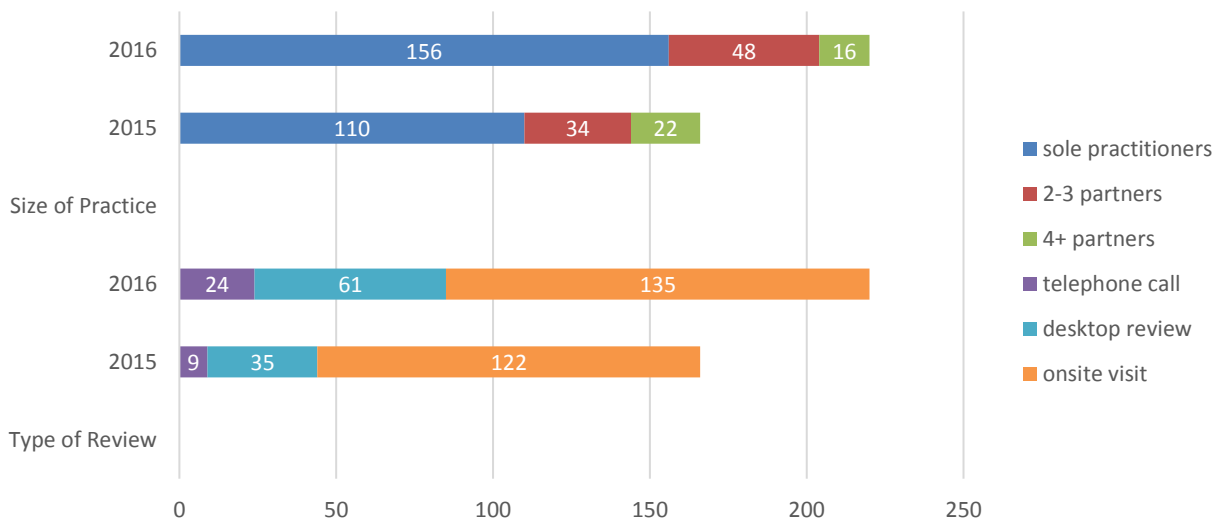
# 2016 MONITORING RESULTS

## Visits

In 2016 we conducted 220 Practice Monitoring visits (2015: 166; 2014: 189), via a combination of delivery methods, and to firms of differing sizes:

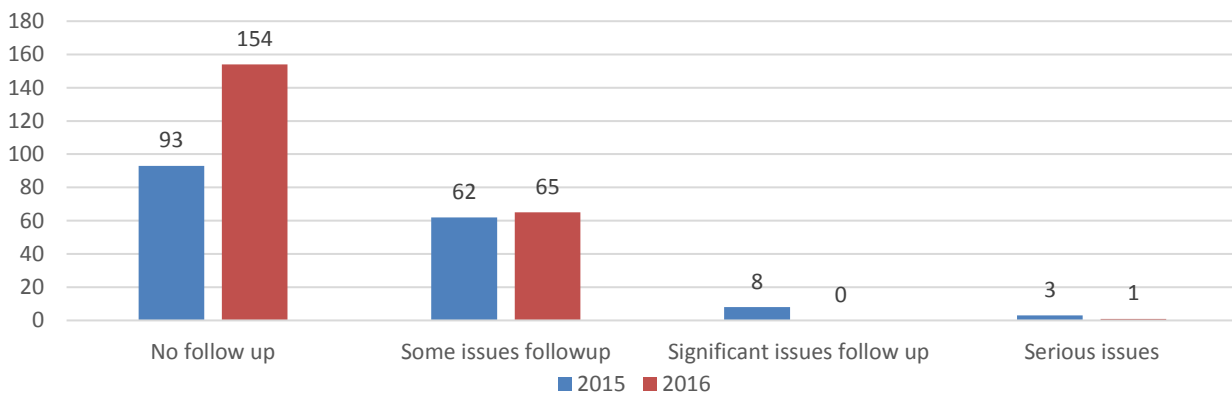
The majority of our visits were to small firms, which mirrors our demographic, where approximately 74% are 1 to 3 principal firms.

### 2016 Visits



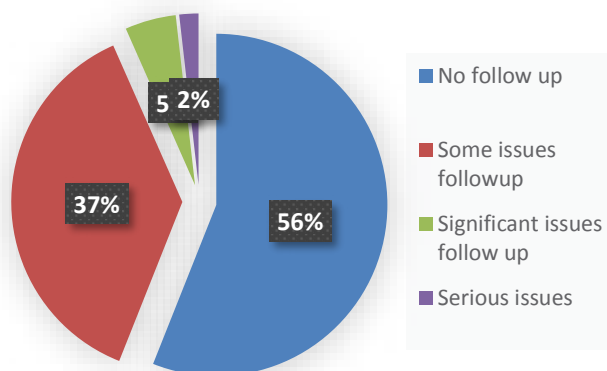
## Visit outcomes

The results for the 220 visits in 2016 were (by firm numbers):

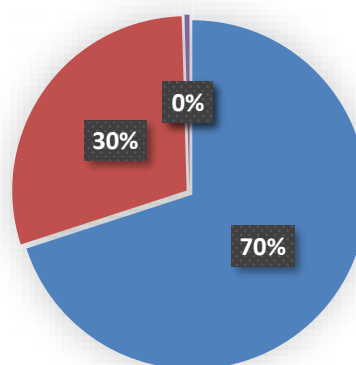


The visit outcomes, compared to last year, expressed as %s:

**2015 Visit outcomes (%s)**



**2016 Visit Outcomes (%s)**



It is difficult to make comparisons year-on-year as different firms are visited. It is encouraging that 70% of firms visited in 2016 achieved satisfactory standards of compliance and required no follow up. 30% of firms required follow up checks for certain aspects. In the main this related to procedural issues in relation to Anti-Money Laundering, but the second most common area of follow up relates to financial statement disclosures. No regulatory action required to be taken against any firm.

Where there are specific areas that require significant improvement, or where repeat findings are identified, the firm will be subject to follow-up checks by Practice Monitoring. In the most serious of cases, the Committee may impose conditions or restrictions; regulatory penalties; or make referrals to the Investigation Committee; or potentially withdraw or suspend a Practising Certificate, although these situations are infrequent and no such cases occurred during 2016.

We focus in the next section on the two most common areas requiring follow up: Anti-Money Laundering and Financial Statement Disclosures.

# KEY MESSAGES

The section below focusses on several key 'take-away' messages for firms.

## Anti-Money Laundering (AML)

### Key developments during the year

Our 2015 report highlighted that AML had become a significant focus for the Government and that we were about to make some important changes to:

- the way in which we conducted follow up checks to firms with AML issues; and
- how we supported such firms.

As part of our developmental regulation approach we made the following changes during 2016:

- **Three-month follow up checks:** Where AML issues are considered sufficient to warrant a follow up check, receive this check the firm will now receive this visit within a three month timeframe (previously six months).
- **Practice Support:** Firms on follow-up are offered free support from our Practice Support team before they receive their follow-up check.
- **Regulatory sanctions:** Firms failing to improve quickly may be faced with regulatory penalties or referrals to the Investigation Committee. But this is exceptional and usually relates to a serious case. There were no such cases during 2016.

Firms who receive a follow-up check also receive the time to their next full Practice Monitoring visit shortened just to ensure that improvements made are maintained.

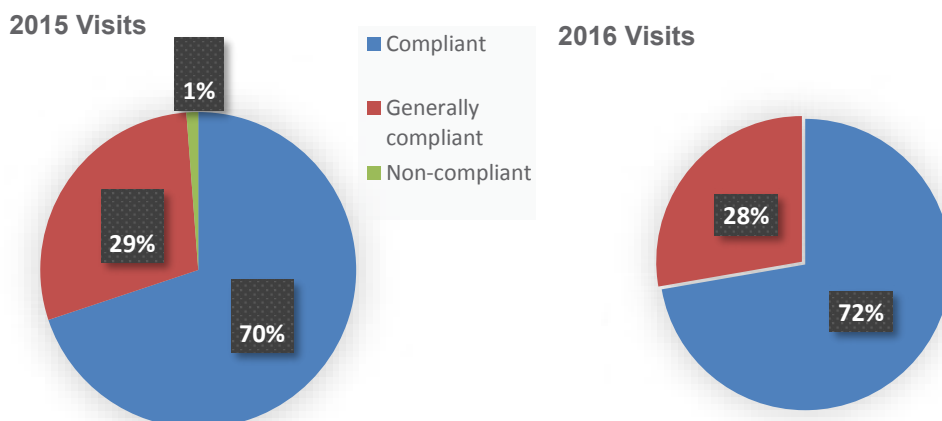
Another very important tool in driving an improvement in compliance has been making the General Practice Procedures Manual (GPPM) freely available to firms. All eligible firms have had full free access since 1 April 2014. During 2016, we also made the AML sections available to insolvency practitioners licensed by ICAS and ICAS tax professionals (ITP).

We have a number of other AML initiatives, as detailed below. Search "AML" on icas.com or contact Practice Support.



## 2016 AML Results

The Government requires all accountancy supervisors to take the same approach to grade AML outcomes and we are required to report these outcomes to the Government on a regular basis. We report AML compliance in the following three categories.



During 2016, 72% of firms (159 firms) were found to be compliant. The 28% of firms which were generally compliant (61 firms) were subject to follow-up checks. There were no firms considered non-compliant.

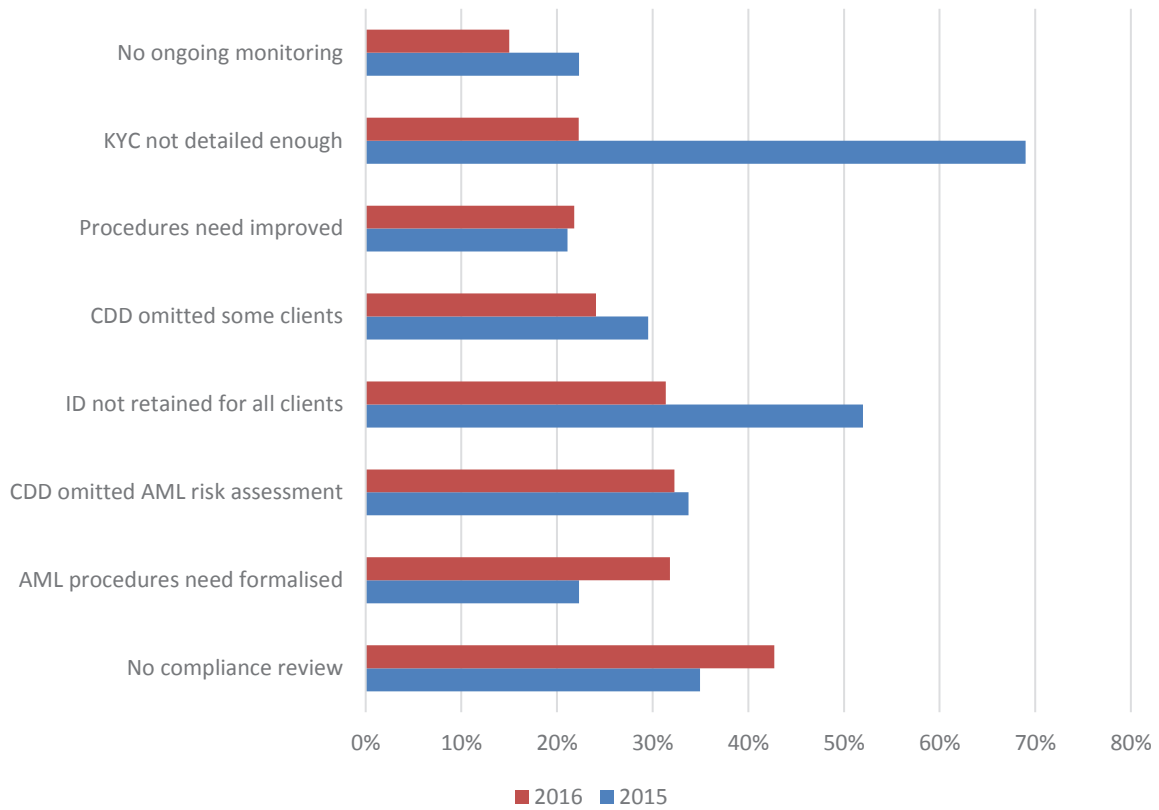
## AML Issues

Whilst we cannot draw too many conclusions comparing year-on-year, many firms are benefiting from the free availability of GPPM and are achieving better standards of compliance. The graph overleaf shows the main issues identified on visits. Significant improvements were noted in the more "basic" areas of client identification and Know Your Client documentation. Areas for improvement continue to be AML procedures and, in particular the lack of an annual compliance review.

It may seem strange that we credit the introduction of free GPPM for improvements when there are still procedural issues. However, firms that are using the GPPM checklists for risk-based customer due diligence requirements are often omitting to implement a policy document setting out their approach to AML compliance. GPPM provides an example policy but this should be tailored to the firm's circumstances, client base, size of practice, staffing levels and so on.

It is also noted that many firms are still forgetting to conduct a regular compliance review.

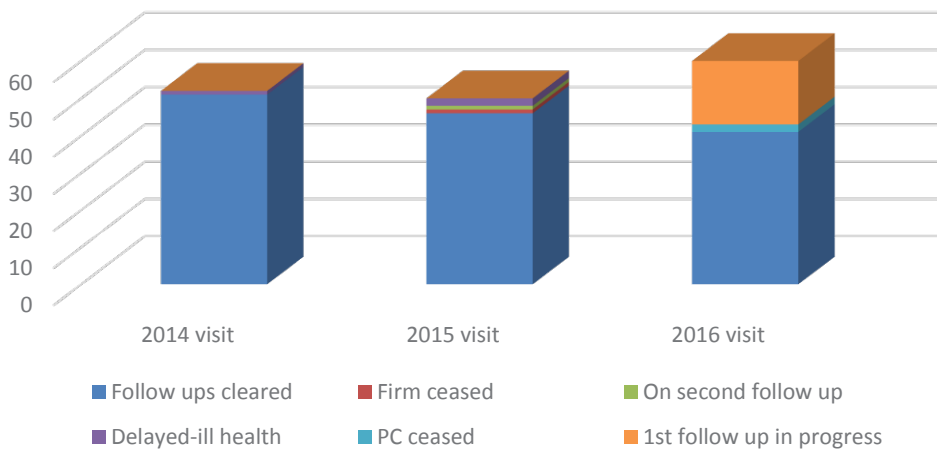
### Key AML findings (% of firms)



#### Tips:

- Remember to establish a written set of AML policies and procedures. Firms are able to use examples in compliance manuals such as GPPM but please remember to tailor these to your firm.
- Remember to conduct a regular AML compliance review. Again, most manuals, including GPPM, have example compliance review checklists.

#### What happens to the firms on follow-up checks?

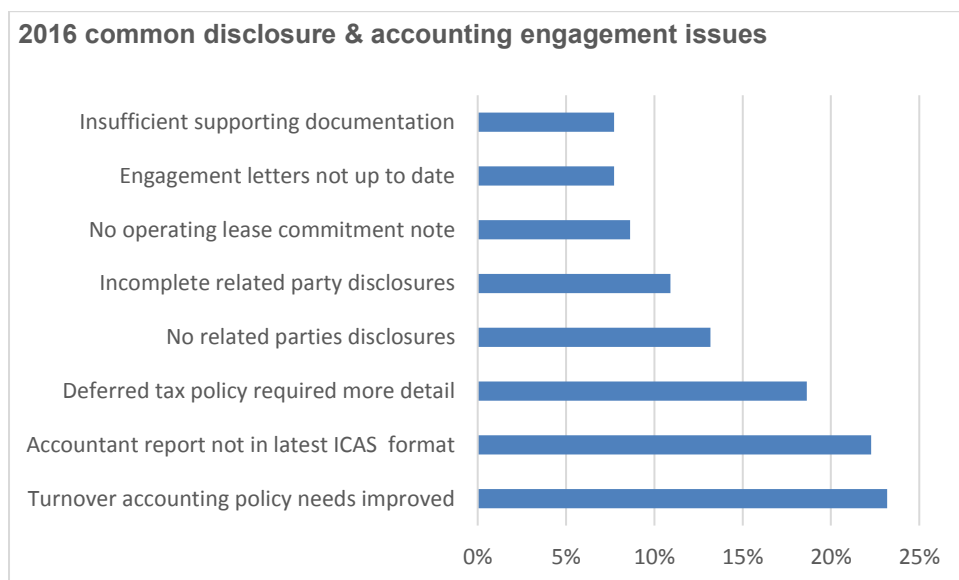


The majority of firms are clearing through the follow up checks on a timely basis. The only delays experienced have been due to serious ill-health or changes in the practice. No firms have required regulatory action to date.

## Financial statement disclosures & New UK GAAP

### Current issues

As mentioned in the previous section, a number of firms are receiving follow-up checks due to issues relating to accounts engagements, including financial statement disclosure issues. The chart below provides details of the most common accounts preparation and disclosure issues found on visits.



### New UK GAAP

If there is one other key message in this report, it is the importance of staying on track with the new UK GAAP (FRS 102, FRS 102 1A and FRS 105) and ensuring that sufficient training, planning, and resources has gone into this area.

We expect the next two years to be challenging for firms in implementing UK GAAP throughout their client base. FRS 102 implementation is well under-way and firms are starting the implementation of FRS 102 1A or FRS 105 for smaller entities. Firms with charity clients will also be implementing the FRS 102 Charity SORP.

For technical material on the new UK GAAP, please search “UK GAAP” on icas.com.

From visits completed towards the end of the 2016, it would appear that a number of firms may have held-off completing their accounts preparation for as long as possible. This could lead to firms facing significant workload pressures.

The FRS 102 accounts which the monitors reviewed arose mainly in the context of audit monitoring visits. This is covered in our Audit Monitoring Annual Report, but of the FRS 102 engagements that the monitors inspected, half have had disclosure omissions.

It is, therefore, important that firms devote sufficient resources to this area in order keep on track. The key common sense tips are:

#### Tips:

- **TRAIN:** Ensure that all you, your fellow partners, and relevant staff have obtained training on UK GAAP sufficient to understand the requirements, and identify the key issues on each audit.
- **PLAN:** Plan ahead how the key requirements will affect your client. Ensure you have considered the transitional disclosures required.
- **RESOURCES:** Ensure you have factored in enough time and deal with the additional requirements.
- **ACCOUNTING SOFTWARE:** Don't over-rely on your accounting software. Some of the software providers have provided more disclosures than required which require editing down, whilst others require the firms to add in additional disclosures. Either way your UK GAAP knowledge is important, you will need to factor in enough time to make changes and this time shouldn't be underestimated.

# ICAS SUPPORT

## The General Practice Procedures Manual

If you have not already registered to use GPPM and you would like to, please go to <https://www.icas.com/member-benefits/general-practice-procedures-manual> (you require to first log in with your member details) or contact Practice Support.

## Free UK GAAP Events: Bridge the GAAP

During March to May 2017 we are rolling out a number of UK GAAP events which are free for our practitioners.

The events focus on the challenges firms are facing in the implementation of the new UK GAAP (FRS 102), and how to avoid the pitfalls and stay on track.

The events cover both company accounts and charity accounts and focus on:

- UK GAAP findings coming out of recent monitoring visits and FRS 102 surgeries; and
- Key issues in relation to charity accounts and independent examinations.

The speakers will be both members of our monitoring team and from our technical team.

We also hope to record one of the events to make it more widely available to practitioners who cannot attend.

For more information on the events please search 'bridge the gaap' at icas.com.

## Practice Management Course

Practising Certificate Holders are reminded of the need to attend this course once in the five-year period from 1 April 2014 to 31 March 2019. For more details search "[Practice Management](#)" at icas.com.

## Anti-Money Laundering (AML) Resources

There are a significant number of AML articles and resources on icas.com which can be found by searching "AML".

## ATOL

The Civil Aviation Authority (the CAA) requires ATOL Reporting Accountants and their firms to become licensed with an Approved Professional Body (APB), such as ICAS. From 1 April 2016 onwards only registered and designated ARAs working in registered firms have been able to sign ATOL Accountants Reports.

If you think that this scheme applies to you but you have not been in contact to license with ICAS, please contact [regulatoryauthorisation@icas.com](mailto:regulatoryauthorisation@icas.com) or phone 0131 347 0286.

Please search on "[ATOL](#)" at icas.com to access the ATOL Reporting Accountants Scheme section of our website.

## Helpsheets

There are a number of practice helpsheets covering regulated areas such as:

- Clients' Money
- Investment Business
- Pensions Auto-Enrolment
- Signing-off Accounts
- Exercising a right of lien
- Ethical matters for engagement and dis-engagement

These can be found by first logging in as a member on icas.com and searching on "[helpsheets](#)".

If you would like more information in relation to Consumer Credit please search on "[consumer credit](#)" at icas.com to access the consumer credit section of our website.

# 2017 NEWS

## Anti Money Laundering

Firms should expect significant developments in this area over the coming practice year.

### Financial Action Task Force: UK Mutual Evaluation 2017-2018

Government focus in this area is increasing. The UK is about to receive its Financial Action Task Force (FATF) mutual evaluation. This means the UK will shortly be assessed for its effectiveness in combatting money laundering and terrorist financing. The evaluation will commence in the summer of 2017 and complete during 2018.

The Government has been requiring, and will continue to require, AML data in the lead up to the assessment. Whilst ICAS collects and provides this information to the Government, we expect the amount of information and data to increase, and ICAS may be required to obtain additional information from firms at very short notice. ICAS will try to minimise the burden to firms, but, there will inevitably be an impact on our firms. This means that:

- **We have been expanding our AML monitoring on Practice Monitoring visits.** Our monitoring has been expanded in areas such as Trust and Company Service Provision and in reviewing Suspicious Activity Reports in particular (see below)
- **We may have to ask your firm for short notice information requests.** Such as by questionnaire or by direct information request.

## Other changes ahead

The accountancy sector is deemed to be the second highest risk sector in the UK, after the banking sector despite our firms not being party to transactions. It is expected that there will be increased regulation of the sector, and oversight. We will inform you of any changes as they happen.

### Digital Transformation: Firms Annual Return

The Professional Standards Division will shortly be embarking on a digital transformation project, with the aim of improving engagement with our firms. We hope that the outcomes will be easier processes for our firms.

As part of this project we held a number of Firm Annual Return workshops with ICAS firms at the end of 2016. It was great to hear firms' views and we are using the valuable feedback to shape the transformation project.

Much of the information we gather in the Firms Annual Return relates to information requested on behalf of other regulators, including the following bodies:

- HM Treasury;
- Financial Reporting Council;
- Irish Accounting & Auditing Supervisory Authority;
- Financial Conduct Authority;
- Civil Aviation Authority (In relation to ATOL).

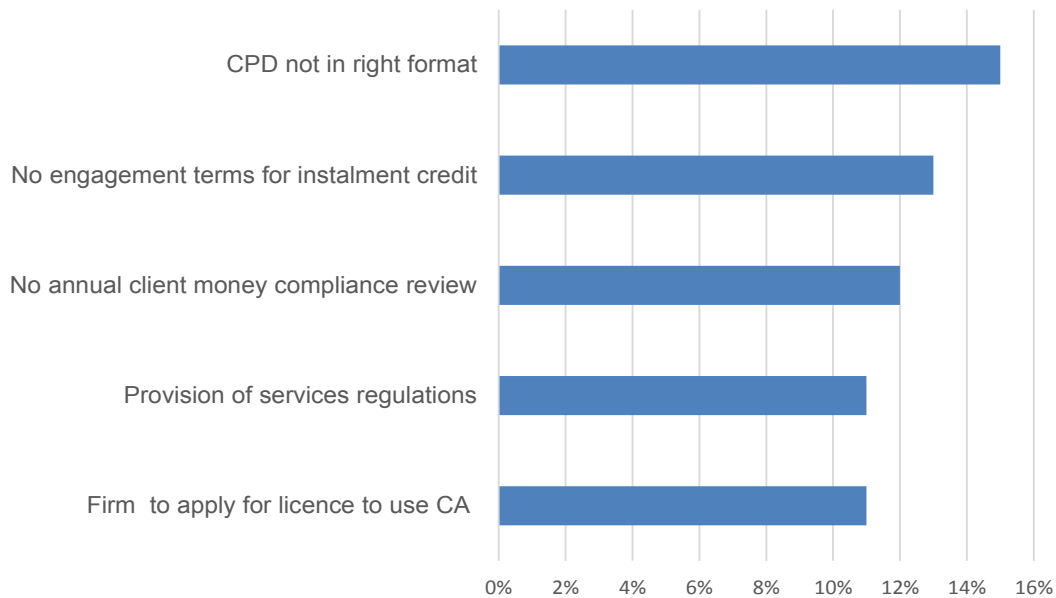
The information which ICAS requests not only informs our monitoring activity but also provides information to key supervisory authorities.

# APPENDIX ONE: DETAILED VISIT FINDINGS

We have already covered the most common issues on Practice Monitoring visits which are: AML and the issues on accounts engagements.

The graph below shows the most common remaining issues. The incidence of the other findings are low, but are still worth highlighting:

## 2016 Common findings



## Continuing Professional Development (CPD)

A number of members in practice are still using the old input based approach to recording CPD and are recording structured and unstructured CPD.

ICAS has been using an output based CPD model for years, which requires the member to consider a four-step process. The output based model is more flexible and allows ICAS Members to choose the nature and extent of the CPD required for their role.

## The four-step development process

STEP

1

### Define current and future role(s)

Define in broad terms what is expected in your current role. Future career options and goals should also be taken into consideration.

STEP

2

### Deciding on training and development needs

Decide on the skills and knowledge levels needed to meet the expectations identified in step 1 and which will enable effective performance. These should be compared against existing skills and knowledge levels to help identify training and development needs.

STEP

3

### Developing or undertaking a personal development programme

Identify and plan to undertake CPD activities that are relevant to your role and which will help meet the training and development needs identified in Step 2. Wherever possible, you should aim to undertake a breadth of CPD activity.

STEP

4

### Record when you have undertaken a particular CPD activity

Reflect on the learning outcome of an activity, decide if it has had an impact on your skill or knowledge levels and then provide a brief statement to this effect.

#### Tips:

- Our online CPD recording system is available on the left-hand menu called 'My CPD' once you have logged into icas.com.
- Alternatively, the form can also be accessed in the CPD section of icas.com by searching on "CPD".
- We also have example CPD records and significant CPD support available on icas.com, including example CPD records, including examples for Members in practice. This support can be found on the ICAS website by searching on "CPD"

### Consumer credit: Instalment credit

If you offer your clients the facility to spread their professional fees, by allowing fee payment by instalment, this is a regulated consumer credit activity (called 'entering a regulated credit agreement'), unless you can apply one of the exemptions available. If you want to avail of the new 12 payment exemption to obtain the client's agreement to the new terms in writing e.g. by issuing new engagement letters or new standards terms and obtaining the clients' agreement. A number of firms were found to be operating instalment credit without the new terms.

#### Tips:

- The sample engagement letter wording is:  
*'We offer you the facility to pay your professional fees by [monthly][quarterly] instalments. We do not charge any interest or charges [except for default charges]. As these terms have been agreed after 18 March 2015 this instalment agreement is not a regulated credit agreement.'*
- For more information please search on "[consumer credit](#)" at [icas.com](#) to access the consumer credit section of our website.

### Clients' Money

There are generally very few issues with this area, but the most common one is the lack of an annual compliance review. This has been a repeated issue for years and is an easy issue to resolve.

#### Tips:

The compliance review is important to ensure that firms are maintaining compliance with the Clients' Money Regulations and this is covered in more detail in our helpsheet. Please access by searching on "[helpsheet](#)" when logged into [icas.com](#).

The General Practice Procedures Manual ('GPPM') also contains a checklist that can be used in the Client Money Regulations compliance review.

### Provision of Services Regulations

The Provision of Services Regulations came into effect in 2009, but a number of firms have yet to make the required information available to their clients in relation to PII and complaints procedures. GPPM contains example wording in the 'standard terms of business'.

### Use of description CA or Logo

During 2016, we communicated to firms that we wanted to support firms in promoting the CA brand and therefore we encouraged firms to use the description CA in email, website addresses and descriptors. We also encouraged firms to use the ICAS logo.

However, in order to ensure that only those firms which are entitled to use it are doing so, we are required to control this by the firm entering into a Licence Agreement with ICAS.

A number of firms were found to be using "CA" without the licence and were advised to apply.

#### Tips:

We have a dedicated section of the website which provides guidance on this area and explains how to apply. Please search on "[ICAS logo](#)" at [icas.com](#).

# APPENDIX TWO:

## OTHER USEFUL LINKS AND CONTACTS

We hope you find this report useful, and if you have any comments or questions please contact us at [auditandpracticemonitoring@icas.com](mailto:auditandpracticemonitoring@icas.com)

Within ICAS there are a number of contacts which may be useful:

- Technical queries: for auditing, accounting, law or ethics queries please contact [accountingandauditing@icas.com](mailto:accountingandauditing@icas.com).
- Money Laundering confidential helpline: if you have any potential money laundering issues, please contact our confidential helpline on +44 (0)131 347 0271.
- The ICAS Practice Support Department provides support to all ICAS registered firms. It offers a variety of services on all aspects of practice, which can be tailored to meet the needs of your firm. For more information on any of these services, contact +44 (0)131 347 0249 or email [practicesupport@icas.com](mailto:practicesupport@icas.com).



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