



PRACTICE MONITORING  
ANNUAL REPORT 2015



2015

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# INTRODUCTION

We are pleased to present our annual report on the activities of ICAS Practice Monitoring for the year ended 31 December 2015.

As in previous years this report aims to provide the following:

- An overview of the activities of ICAS Practice Monitoring during 2015;
- Key messages and detailed findings arising from monitoring visits; and
- Additional news and information for 2016.

This report provides an overview of the most common findings from the Practice Monitoring visits conducted during the year ended 31 December 2015, and is designed to provide transparency of the work of the team. We hope that you find it useful in considering how effectively your firm is complying with regulatory requirements.

We encourage you to circulate and share the report with your colleagues in order to prevent similar issues occurring in the future. If you have any comments or questions please contact us on [auditandpracticemonitoring@icas.com](mailto:auditandpracticemonitoring@icas.com).

# WHAT WE DO

## Background

The primary focus of ICAS Practice Monitoring is to uphold the standards of our members in practice, in the public interest. Our aim is to monitor and support our Practising Certificate Holders to comply with regulatory requirements and achieve good practice standards. The Practice Monitoring function monitors all areas of accountancy practice, except for audit and insolvency activities, which are dealt with by different teams within ICAS Regulatory Monitoring.

The work of the Practice Monitoring team was overseen by the Public Practice Committee in 2015, however there has been an important change to the governance within ICAS (see '2016 News').

For more information on our monitoring visit process please search for 'practice monitoring' at [icas.com](http://icas.com).

## Who we review

At the 2015 year-end, ICAS had 1,058 firms, with 166 of these firms being subject to a monitoring review in 2015.

The following table provides an analysis of the size of firms within the population:

	Scotland	Rest of the UK	EU	Rest of the World	
One partner	582	176	4	0	762
2 to 5 partners	214	38	0	1	253
6 to 10 partners	21	5	0	0	26
11 and over partners	9	8	0	0	17
TOTAL	826	227	4	1	1058

## Our approach

ICAS adopts a risk-based approach to decide on when a firm receives a Practice Monitoring visit, and different delivery methods have been introduced to more appropriately tailor these visits to different sizes of firms. Many firms will receive an onsite, face to face visit, however we also conduct a desktop review process, or telephone review, for some practices.

Following completion of a monitoring visit a firm may be required to undertake action that is subject to follow-up review by Practice Monitoring, where there are specific areas that require significant improvement, or where repeat findings are identified.

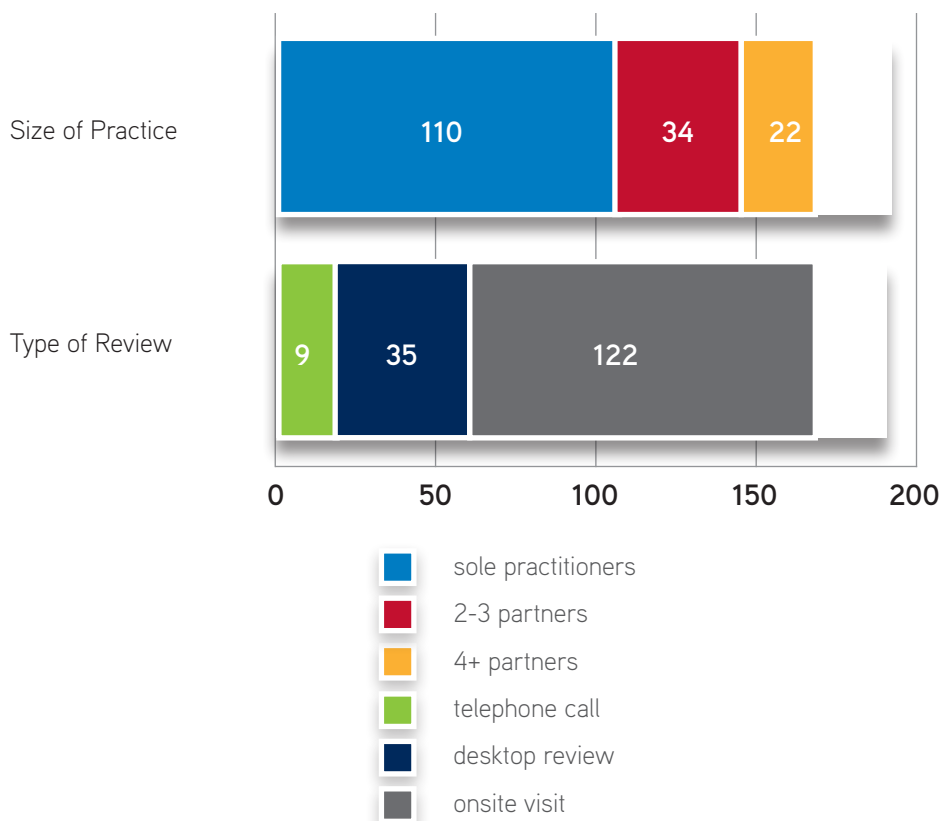
In the most serious of cases, the Committee may impose conditions or restrictions; regulatory penalties; or make referrals to the Investigations Committee; or potentially withdraw or suspend a Practising Certificate, although these situations, are infrequent.

# 2015 MONITORING RESULTS

## Visits

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

### VISITS CONDUCTED IN 2015



The majority of our visits during 2015 were to sole practitioners, which mirrors the demographic of our firms, where approximately 70% of ICAS registered firms are sole practitioners.

## Visit outcomes

Practice Monitoring visit outcomes	2015
No findings or a small number of findings which were not materially significant.	93 (56%)
Findings were not materially significant, but a follow up check was deemed appropriate for one or two aspects.	62 (37%)
Findings were materially significant and follow up check was deemed necessary across a larger number of areas.	8 (5%)
Serious issues had been identified and a referral to the Committee was required.	3 (2%)
<b>Total</b>	<b>166</b>

Whilst direct year-on-year comparisons are difficult, given the different population of firms visited each year, and due to the change in monitoring regime, there has been an increasing trend of firms being subject to follow-up checks, with 73 firms subject to follow up in 2015 for various reasons, representing 44% of visits (2014: 30%).

Whilst the number is significant, the vast majority of firms have shown sufficient improvement by the follow up check.

It is encouraging to note that there are a large number of firms with a strong compliance culture and a significant percentage of firms reviewed in 2015 either had only a small number of findings, or follow-up checks were required against only one or two aspects. In these firms there were good examples of compliance with applicable regulations, and adoption of best practice.

In particular, there was increased compliance against the previous year in relation to compliance with Clients' Money and DPB requirements, albeit there continues to be areas for improvement.



The most common areas where findings were identified in 2015 are consistent with 2014, and relate to:

- Anti-Money Laundering (AML) Regulations;
- Client Money Regulations;
- CPD requirements;
- DPB (specifically compliance reviews); and
- Financial statement disclosures and related client work.

Given the importance of AML we have decided to dedicate a whole section of our report to this area this year. Before turning to this important subject, we will cover the other main areas where firms are being put on follow up checks:



### Client Money Regulations

This year's visits have identified an increase in the number of findings in relation to compliance with the Money Laundering Regulations.

Many firms are operating their client money accounts well and in accordance with the Client Money Regulations, however a number of firms have been subject to follow-up action with regards a suitable confirmation from the bank stating that funds are held for clients, and that the funds cannot be set off against any other accounts. The Clients Money Regulations require an annual review to be carried out, and again, a number of firms have not addressed this requirement.

#### TIP

The compliance review is important to ensure that firms are maintaining compliance with the Regulations and this is covered in more detail in the ICAS helpsheet, which can be found by searching for 'client money helpsheet' when logged into [icas.com](https://www.icas.com), or at [ICAS client money helpsheet](#).

The General Practice Procedures Manual ('GPPM') is available free of charge to all eligible firms. The manual can be accessed at [ICAS GPPM](#) and contains a checklist that can be used in the Client Money Regulations compliance review.



### Continuing Professional Development (CPD)

Whilst the vast majority of Members may have completed sufficient CPD, some have had repeatedly failed to complete CPD records and are required to demonstrate improvements in this area.

ICAS has an output based approach to CPD and it is important that all Members demonstrate their compliance with the four step development process.

#### TIP

- Our online CPD recording system is available on the left hand menu called 'My CPD' once you have logged into [icas.com](https://www.icas.com).
- We also have example CPD records and significant CPD support available on [icas.com](https://www.icas.com), including example CPD records, including practice examples. This support can be found on the ICAS website at [ICAS CPD requirements](#).



### **Disclosures and client work**

Whilst we see some excellent examples of client work, where files are well structured and work is well recorded, there are often instances where improvements are required. Some of our most common client work related findings include:

- Not using the most up to date recommended accountants report;
- The turnover accounting policy could be expanded to better reflect the nature of the company's activities;
- Insufficient related party disclosures ; and
- Out of date engagement letters.

A smaller number of more file specific issues were identified regarding recording of work performed and filing back up information on the working paper file.

#### **TIP**

A helpsheet is available on the ICAS website which details our most common disclosure issues at [ICAS common disclosure errors](#).



### **Designated Professional Body (DPB) Investment Business**

It is pleasing to note that the number of issues in this area has been reducing year-on-year. That being said, there remain some areas for improvement, primarily in relation to completion of a compliance review; ensuring there are written agreements with permitted third parties; and making clients aware of connections with permitted third parties.

#### **TIP**

An ICAS helpsheet covering this can be found at [ICAS DPB helpsheet](#).

# SPECIAL FOCUS: ANTI MONEY LAUNDERING



Consistent with last year, this is the most common area where follow-up action is required. The importance of this area cannot be stressed enough and is the reason for dedicated section in this report.

## HM Treasury

ICAS is an AML Supervisor under the legislation and is required to report annually to HM Treasury on the levels of compliance.

There has been significantly increased interest by HM Treasury in the past few years, on what HM Treasury sees as the poor level of compliance in the UK and Supervisors are being expected to take further action in order to reduce the risk of money laundering, financial and organised crime. The Money Laundering Regulations, as amended by the Money Laundering (Amendment) Regulations 2012 ('the Regulations') have been in force since 2007 and HM Treasury has made it clear that continued non-compliance is not acceptable

A National Risk Assessment was also recently published where the accountancy sector was considered high risk. You may have also noticed significantly increased media attention in this area. As this report is being written, the Government has published a Call for Information for AML supervision in the UK where significant reforms are being proposed.

All this leads to a heightened focus on AML.

## Our current approach

Any firms with repeat AML issues are required to receive a follow up check to evidence improvement. The vast majority of firms have made sufficient improvements by the first follow up check with only 10% of firms requiring a second follow up check. No firm has yet failed to improve during the Practice Monitoring regime.

Firms who have received a follow up check will also have their time to next Practice Monitoring visit shortened in order to ensure that the improvements are sustained.

It has not been all 'stick' though and we have offered a significant range of support to our firms as part of our developmental approach to regulation:

## TIP

Our AML support includes:

- A welcome pack for new practitioners to highlight the requirements of the Regulations;
- The General Practice Procedures Manual ('GPPM') is available free of charge to all eligible firms. The manual can be accessed at [icasgppm.co.uk/](http://icasgppm.co.uk/) and more information, including how to register, can be found on the ICAS website. Chapter 14 of GPPM covers Anti-Money Laundering in great detail, and there are a number of templates, forms and checklists for firms to use in order to aid compliance;
- There is a dedicated section of the ICAS website ([icas.com/regulation/anti-money-laundering](http://icas.com/regulation/anti-money-laundering)) that includes technical guidance and alerts with regards the area of anti-money laundering;
- The ICAS Practice Management course contains a session on the Regulations and guidance on how to ensure compliance. This includes visiting speakers from Police Scotland and the NCA;
- The Practice Monitoring team provides advice and guidance during monitoring visits; and
- A Practice Support procedural helpline and anti-money laundering issues helpline (0131 347 0271 regarding specific reporting instances, or 0131 347 0246 regarding general procedural queries).

GPPM, in particular, is proving very successful in ensuring that firms have the tools to comply with the requirements and turnaround their compliance after a visit. If your firm does not currently subscribe for GPPM please considering doing so.

Important changes have been implemented in 2016, and please see '2016 Changes' for detail on this.

## AML Issues

The top four issues in order of importance are:

- **Policies and procedures** are required to be in place and tailored to reflect the requirements of the practice;
- A **risk assessment** should be undertaken for all clients, and updated on a regular basis to address any changes in circumstances;
- **Know Your Client** procedures should be performed for all clients, including existing clients, and firms should remain alert to changes in key personnel at clients to ascertain whether additional identification procedures are required; and
- There should be **ongoing monitoring** of client due diligence and risk assessments to ensure information remains pertinent.

In addition to the top four, an annual compliance review should be completed.

## 2016 Changes

AML has been a significant focus for the Regulation Board during 2015. The Board started the year reflecting on the outcome of the first year's results of Practice Monitoring, and was concerned by the level of firms on follow up checks due to AML issues. HM Treasury developments further heightened the Board's concerns.

The Board wants to make sure firms become compliant a lot quicker, ideally long before the Practice Monitoring visit, but if there are shortfalls that these are ironed out after the visit even quicker than currently.

### IMPORTANT CHANGES

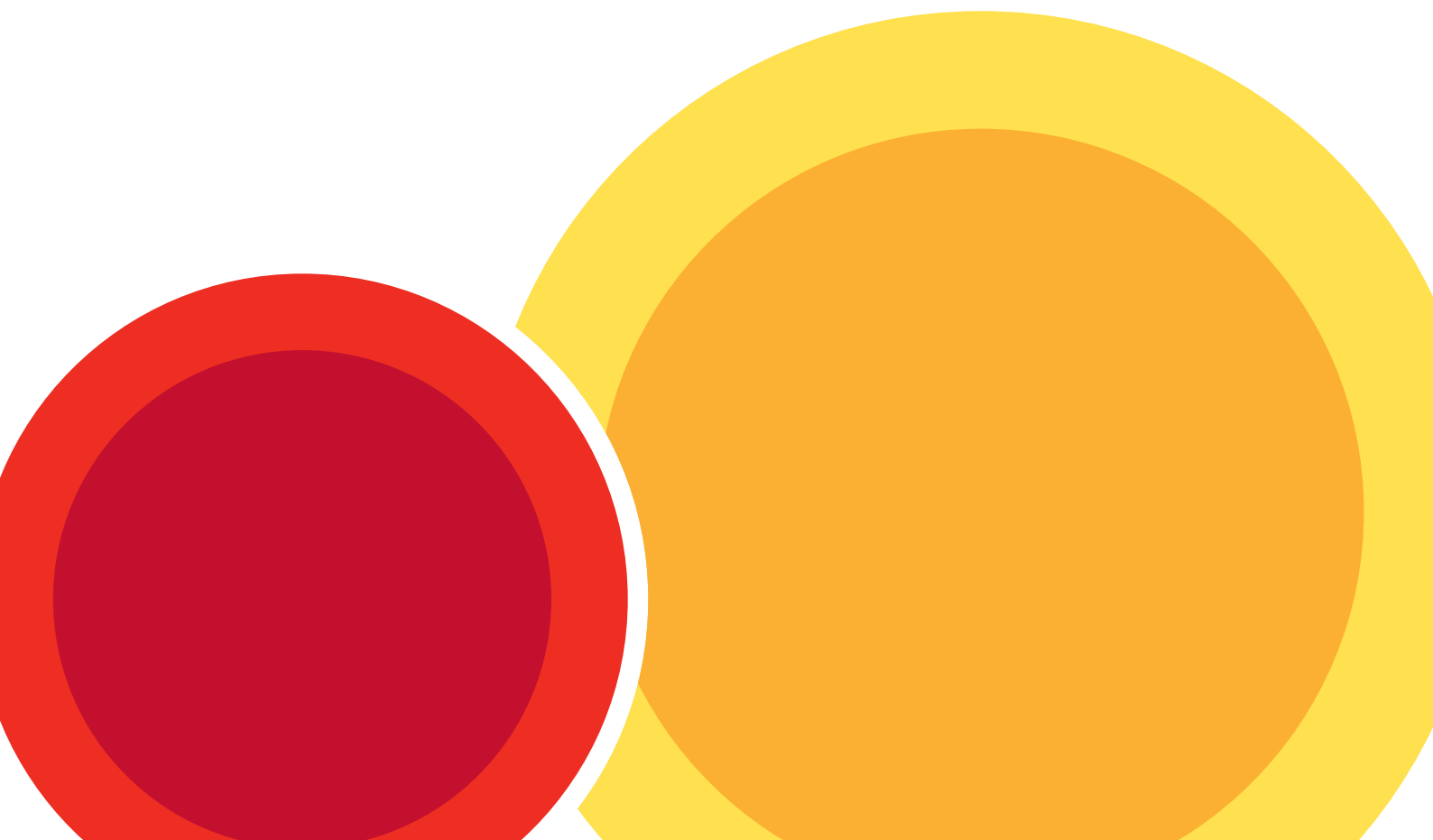
The Regulation Board has decided to take a two pronged approach:

**REGULATION:** Tighten up on follow up action where compliance failings are found:

- Follow up checks will take place three months after the original visit instead of six months
- Firms failing to improve in the first follow up check will require to pay for a second follow up check three months following the first follow up check (ie six months after the original visit). The firm may also receive a regulatory penalty at the end of the process for the delays in improvement, or be referred to the Investigation Committee for continued lack of progress

**SUPPORT:** As part of our focus on developmental regulation, the Practice Monitoring team will share their findings with the Practice Support team who will contact the firm to offer more proactive support.

We also intend to launch a Money Laundering Awareness Week where the key AML messages will be promoted.

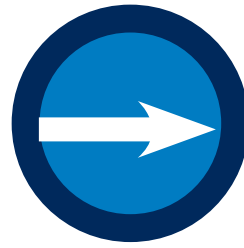


<p><b>Practice Monitoring Visit – AML issues found</b></p> <ul style="list-style-type: none"> <li>• Firm submits action plan</li> <li>• Follow up check in three months *</li> <li>• Warning that if not cleared in three months: <ul style="list-style-type: none"> <li>– Second visit paid follow up</li> <li>– Regulatory penalty with publicity may be raised at end of process OR referral to Investigation Committee if not improved</li> </ul> </li> </ul> <p><i>*three months from date of letter following committee consideration</i></p>
<p>Very serious cases: PC withdrawal or referral to Investigation Committee may be more appropriate</p>



- Free \*GPPM
- Free Practice Support
- Free other support

<p><b>First Follow Up</b></p>
<p>Not improved:</p> <p>Second follow up:</p> <ul style="list-style-type: none"> <li>• Pay for follow up</li> <li>• Reminded of regulatory penalty with publicity at end of process or referral to Investigation Committee</li> </ul> <p>Very serious cases: PC withdrawal or referral to Investigation may be more appropriate</p>
<p>Improved: clearance</p>



- Free \*GPPM
- Free Practice Support
- Free other support

<p><b>Second Follow Up</b></p>
<p>Not improved: referral to Investigation Committee</p> <p>In some cases withdrawal of PC will be more appropriate</p>
<p>Improve: clearance and regulatory penalty with publicity</p>

Whilst these measures seem very far reaching, we should reiterate that the vast majority of firms clear their visit after the first follow up check.

The vast majority of firms who make the improvements quickly should therefore only need to utilise the free Practice Support visit to help them, free GPPM and then a free follow up check.

Only firms failing to reach the mark in the time given will be subject to further measures. Mitigating factors such as ill-health and other pressures will continue to be taken into account by the Authorisation Committee.

“GPPM is free subject to eligibility. For more details see [icas.com](https://www.icas.com)

# 2016 NEWS

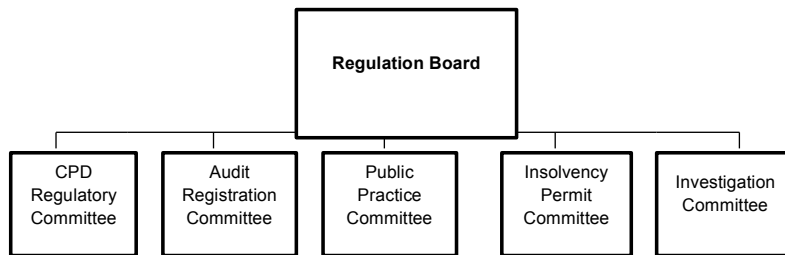
## Authorisation Committee

The Authorisation Committee was formed on 19 April 2016, following an internal review of governance, which recommended that the previous committee structure be streamlined. The Authorisation Committee has the powers and duties previously held by the Audit Registration Committee; the Public Practice Committee; the Insolvency Permit Committee; and the CPD Regulatory Committee.

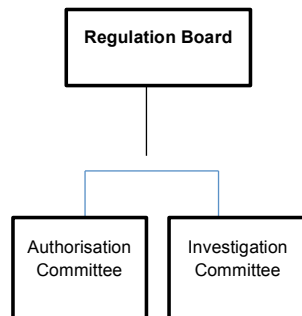
The Authorisation Committee is one of two regulatory committees that reports to the Regulation Board.

The Committee is responsible for all aspects of practice licensing and monitoring and the change is to ensure consistency of decision making across the different practice areas and to accommodate a number of new regulatory models which have been introduced including ATOL; Local Audit; and Consumer Credit.

## Committee structure pre Governance Review



## Committee structure post Governance Review



## Practice Support

With effect from 1 March 2016, the Practice Support team transferred from the ICAS Technical Policy Division to ICAS Regulation and the new division is called 'Professional Standards'.

The work of Practice Support, by its nature, crosses many disciplines and ICAS Divisions. The team has worked closely with colleagues in various parts of the Regulation Division over a long time and this formal transfer to that Division is designed not only to enhance the relationship but facilitate a smoother approach to the introduction of a developmental approach to Regulation where the support activity of the monitoring teams can be supplemented in a more co-ordinated way.

## ATOL

Following the Civil Aviation Authority's ("the CAA's") consultation on rebalancing the regulation of the Air Travel Organisers Licence (ATOL), the CAA has required ATOL Reporting Accountants and their firms to become licensed with an Approved Professional Body (APB). From 1 April 2016 onwards only registered and designated ARAs working in registered firms will be able to sign ATOL Accountants Reports.

ICAS is an APB and is now taking applications to register firms and their ARAs.

If you think that this scheme applies to you but you have not been in contact, please contact [regulatoryauthorisations@icas.com](mailto:regulatoryauthorisations@icas.com) or phone +44 (0)131 347 0286.

# APPENDIX ONE:

## 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: any accounting, law or ethics queries will be answered promptly by Technical staff. Members should contact them using [accountingandauditing@icas.com](mailto:accountingandauditing@icas.com)
- Money Laundering confidential helpline: if you have any potential money laundering issues, please contact our confidential helpline run by our Legal Services division on +44 (0)131 347 0271.
- **Anti-Money Laundering website:** there is a dedicated anti-money laundering section on the ICAS website which provides technical material, guidance and common scenarios can be found at [icas.com/regulation/anti-money-laundering](https://www.icas.com/regulation/anti-money-laundering).
- The ICAS Practice Support Service provides support to all ICAS registered firms. It offers a variety of services on all aspects of regulation, 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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