



# ICAS Monitoring

## Practice Monitoring Annual Report 2019



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## Introduction

This report sets out the practice monitoring results for 2019.

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 2019;  
and
- Key messages and detailed findings arising from monitoring reviews.

The messages in relation to general practice findings are generally positive. Firms which were subject to a visit in 2019 are to be commended where we have identified an increased focus and level of compliance.

Compliance with Anti-Money Laundering (AML) requirements continues to be a challenge for firms, however we are seeing an upward trend in compliance. As in previous years, we have issued a stand-alone Anti Money Laundering Monitoring Annual Report with detailed findings in relation to AML compliance, which all practitioners should read carefully, and share with the firms MLRO.

We hope that you find this report useful in considering how effectively your firm is complying with regulatory requirements. We encourage you to share this report with your colleagues. For more information about Practice Monitoring, please search for “practice monitoring” at [icas.com](https://www.icas.com).

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

## What we do

### The Regulation Board and ICAS Committees

The Regulation Board ('the Board') is the executive board established by Council for setting policy and procedures relating to the regulatory functions of ICAS. The Authorisation Committee, which makes all regulatory decisions in relation to ICAS firms, reports regularly to this Board, as does the Investigation Committee.

### Background: Developmental Regulation

We aim to deliver developmental regulation, which means that our monitoring activities are designed to both:

- support the work of ICAS registered firms;
- uphold standards; and
- provide re-assurance to the public.

Our primary role is to monitor our supervised population and to work with, and to support, firms to ensure compliance with requirements. The regulatory landscape is becoming increasingly challenging, and we are required to act as a robust regulator at all times.

## What we review

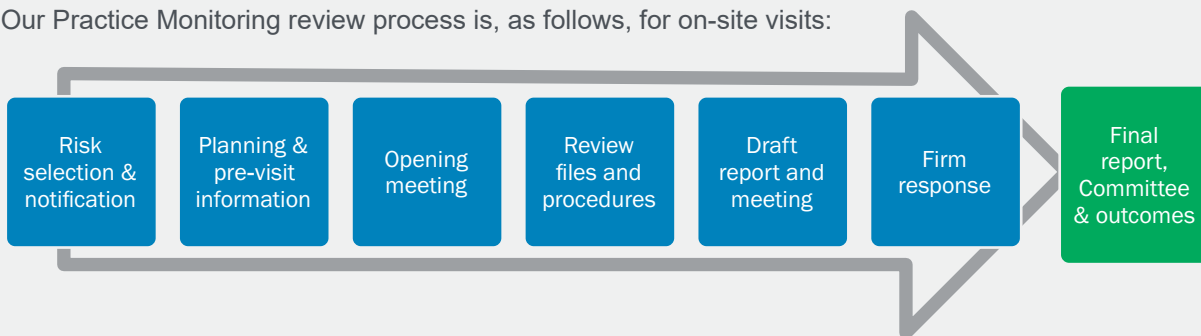
Practice Monitoring covers all ICAS registered firms, and reviews all areas of accountancy practice, except for audit and insolvency activities, which are covered by our Audit and Insolvency Monitoring teams, and are presented in separate annual reports.

We risk assess firms to decide on the timing and frequency of reviews, 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 reviews for the smallest practices assessed as low risk.

If desktop reviews are commenced that we subsequently identify as a higher risk than expected, and we will escalate the nature of the visit. First visits to new practices are almost always an on-site visit.

## How we review

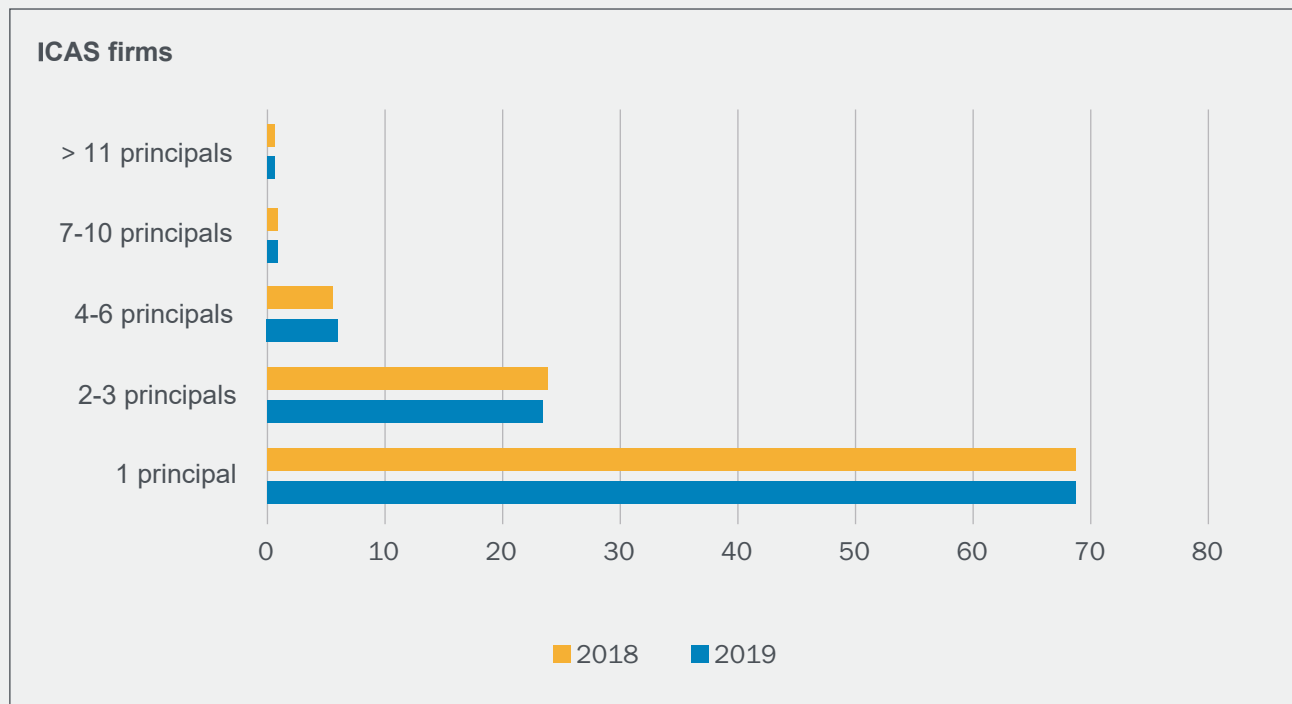
Our Practice Monitoring review process is, as follows, for on-site visits:



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.

## Who we review

As at 31 December 2019 there were 947 firms registered with ICAS (2018: 965). Whilst firms vary in size, the majority are sole practitioners and 2-3 partner firms.



# Monitoring Results 2019

## Overview

We understand that 2019 continued to be a tough time for firms, with regulatory changes having a significant impact on general practice, including maintaining compliance with relevant regulations and legislation, and in particular due to changes in relation to the Money Laundering Regulations; GDPR; UK GAAP; and 'Making Tax Digital'.

Despite these challenges, there was a strong level of compliance within the firms reviewed during 2019.

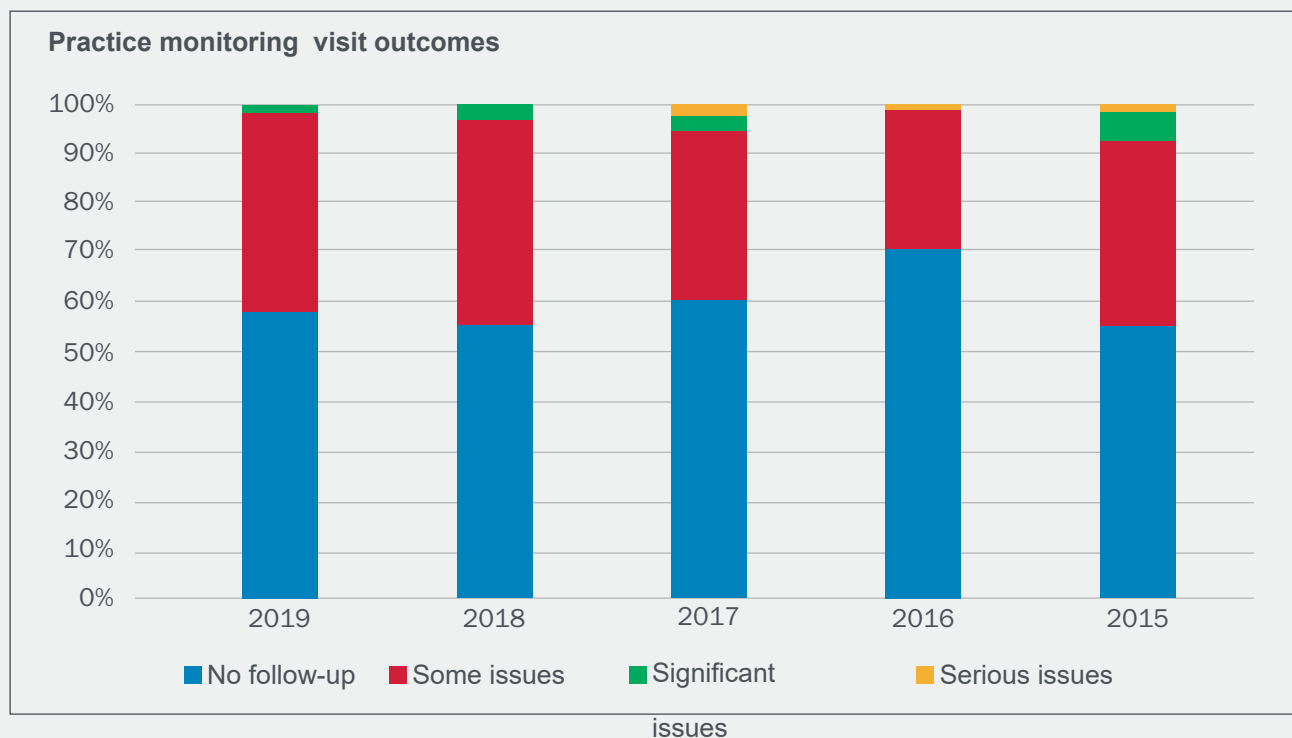
That being said, there continue to be areas for improvement. These are predominantly in relation to AML compliance, and our findings are presented in our AML Monitoring Annual Report 2019.

## Monitoring reviews and outcomes

During 2019, 90 firms (2018: 161, 2017: 182, 2016: 220, 2015: 166, 2014: 189) received a Practice Monitoring review, and we also undertook in the region of 55 follow-up reviews.

72 reviews were performed on site, whilst the remaining 18 were carried out remotely as desktop reviews.

The results for the 90 reviews in 2019, compared to prior years, were (by % of firms reviewed):



On 2019, 57% of firms reviewed in 2019 required no follow-up action, compared to 55% in the previous year.

The remaining firms are subject to some form of follow-up check. We take a robust approach to following up on issues to ensure that firms get to grips with the new regulations quickly. Around 90% of the issues contributing to a firm requiring follow-up relate to AML matters.

In the last 5 years there have been a very small number of reviews that have identified serious issues. Where this is the case, the Authorisation Committee has a range of powers at its disposal, and may impose conditions or restrictions; regulatory penalties; or make referrals to the Investigation Committee.

During this 5-year period we have identified a small number of instances where the Code of Ethics has been breached, in relation to loans to or from clients. This is covered in the 'Key Themes' section of this report.

## Follow-Up Checks

As noted, as part of the developmental regulation approach, some firms receive follow-up checks to ensure that the required improvements are made, as follows:

- Three-month follow-up checks: firms are scheduled for a follow-up check around three months from the date of the Committee outcome letter following their monitoring visit.
- Practice Support: where issues related to AML, firms on follow-up are offered support from our Practice Support team before they receive their follow-up check. This support is free of charge unless significant assistance is required to implement changes required.
- Regulatory sanctions: firms failing to improve quickly may be faced with regulatory penalties or referrals to the Investigation Committee.

During 2019 ICAS introduced Regulatory Actions Guidance in relation to AML compliance which became effective on 1 April 2019. A copy of the guidance is available on [icas.com](https://www.icas.com)

## Key Themes

### Anti-Money Laundering (AML)

The most common issues identified on Practice Monitoring reviews are AML related. As noted, a stand-alone report has been presented to cover areas relating to AML.

Whilst it continues to be a challenging time for firms in terms of regulatory compliance matters, including ensuring compliance with the Money Laundering Regulations, there are positive signs of improvement when compared to prior years. Overall no firms reviewed during 2019 were considered to be 'non-compliant' with the Regulations, albeit you will see from the stand-alone report that a similar number of firms to the prior year were considered to be 'generally compliant', and there remain a number of areas where improvements can be made.

### ICAS Code of Ethics

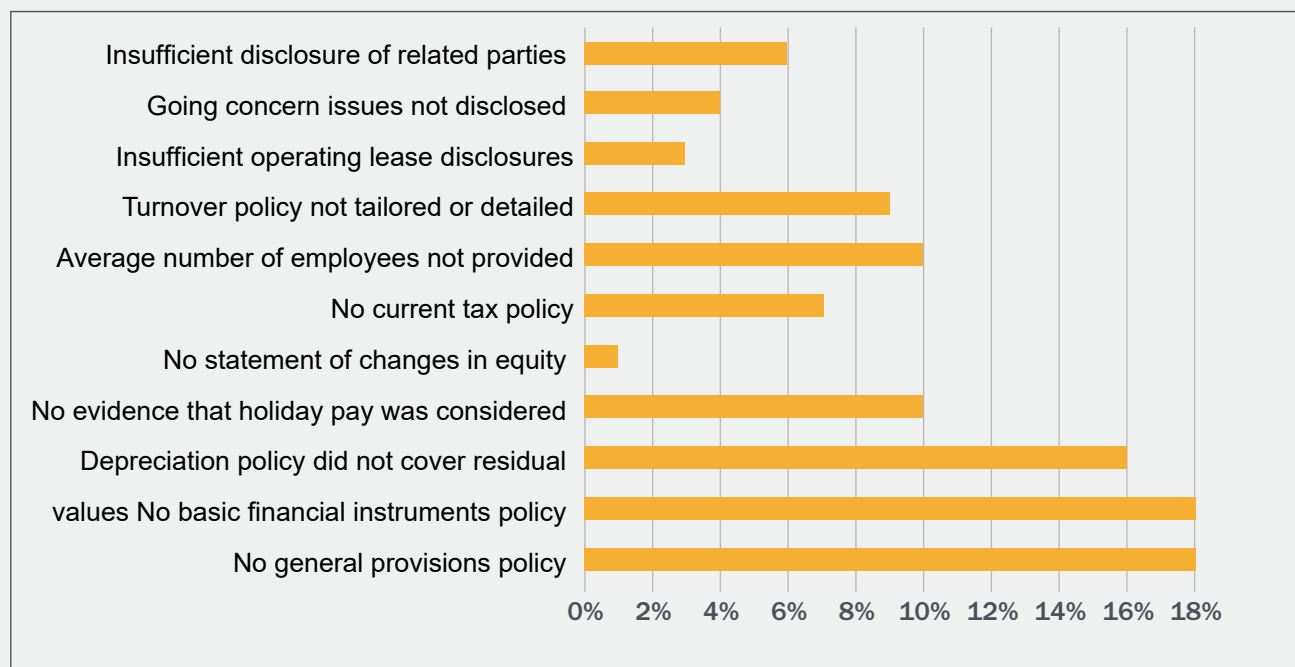
The ICAS Code of Ethics can be located on [icas.com](https://www.icas.com) via searching "code of ethics". Practitioners and firms need to ensure they are familiar with any changes to the ICAS Code of Ethics. This was revised for 2020, and further changes will be introduced from 1 January 2021. One of the areas of the Code where a very small number of firms have breached in recent years has been in relation to loans to or from clients. Whilst the revised Code has clarified and eased some of the restriction around this area, we would urge all firms to review the requirements of the Code in relation to this before considering entering into such an arrangement.

### Financial statement disclosure matters

As part of the Practice Monitoring review, we will select a sample of client work, and the review of this work will include consideration of any financial statement disclosure matters.

#### 1. Common Disclosure Issues in relation to corporate accounts

The table below sets out the common disclosure issues, expressed as a % of reviews conducted during 2019.



## 2. Common Disclosure Issues in relation to Charity Accounts

In the review of disclosure in the financial statements of charities, the following common disclosure issues have been noted:

- Details of payments to key personnel and trustees omitted.
- Incorrect legislative references used in the IE report.
- New SORP being followed, however old references such as 'incoming resources', etc.
- SORP accounts prepared, however the 2005 SORP followed, rather than the FRS 102 SORP.

## Other matters identified during Practice Monitoring activities

Various other matters can be identified during a Practice Monitoring review and whilst none are prevalent across a large number of firms, it is important to draw these to our firms attention, so that each firm can consider and evaluate whether any such issues are relevant for them:

- **Firm not registered with ICO:** with the continued focus on GDPR, it is vital that all firms ensure compliance with data protection requirements if handling or monitoring personal data.
- **CPD:** some members are still using the old 'input-based' method of recording CPD, when the CPD Regulations require an output-based approach. Please refer to the CPD section of our website for how to record your CPD. The website contains a number of worked examples.
- **Client work (accountants report and engagement letters):** other than AML issues, and disclosure issues noted above, the most common client work findings are the Chartered Accountant reports not following ICAS Guidance; and firms not having appropriately up to date engagement letters in place.
- **Client money:** in the main, firms with client money accounts are addressing the requirements, however there are some firms who are not conducting regular reconciliations; not conducting annual compliance reviews; or have not obtained a letter from the bank confirming the nature of the account.
- **DPB:** a small number of firms are undertaking regulated work without holding a DPB authorisation. A DPB authorisation issued by ICAS permits accountancy firms to carry out certain restricted 'exempt regulated activities' without the need to be authorised by the Financial Conduct Authority (FCA). Examples include facilitating client introductions to authorised third parties (ATPs); commenting on advice given by an ATP; liaising with an insurer or loss adjustor in respect of consequential loss claim; and providing advice to individual minority shareholders in relation to the sale of a body corporate. Further information on this can be found on [icas.com](http://icas.com)

# ICAS support

## ICAS response to the COVID-19 pandemic

As part of the ICAS commitment to supporting the welfare of our members, students and staff, the ICAS Coronavirus Hub contains information and resources.

<https://www.icas.com/professional-resources/coronavirus>

## Technical Support

If you have a question about auditing, or indeed other matters (such as: accounting and auditing; ethics; anti-money laundering; practice support; insolvency; ICAS regulation or tax), then technical support is available through a helpdesk, which can be accessed on the website by searching “ICAS Technical Helpdesk”.

## ICAS General Practice Manual

In February 2020 ICAS launched a replacement to the previous General Practice Procedures Manual. This revised General Practice Manual (GPM) service seeks to address previous user experience issues identified and provide a focused, relevant and accessible set of resources for general practice.

The GPM is available directly through [icas.com](https://www.icas.com).

GPM will remain a free resource to ICAS Firms. Engagement letters and AML resources continue to be the most popular subject matters.

AML checklists have been updated to comply with the amended Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 following legislative changes to implement the 5th Money Laundering Directive which became effective on 10 January 2020.

## Framework for the preparation of accounts

The revised (June 2020) version of this framework can be accessed at: <https://www.icas.com/professional-resources/practice/support-and-guidance/framework-for-the-preparation-of-accounts-revised-june-2020>

## Money Laundering confidential helpline

If you have any potential money laundering issues, please contact our confidential helpline on 0131 347 0271.

## The ICAS Practice Support Service

This service 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, please contact [practicesupport@icas.com](mailto:practicesupport@icas.com)



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