

Practice Monitoring

Annual Report

For the year ended 31 December 2020



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Introduction

We are pleased to present our annual report for 2020. 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 2020; and
- Key messages and detailed findings arising from monitoring reviews.

It is recognised how challenging 2020 has been for practitioners, and indeed continues to be in 2021, dealing with the impact of the pandemic and its restrictions, both personally and professionally. CAs in practice have been at the forefront of supporting small business navigate the plethora of government pandemic support schemes for the employed and self-employed.

We acknowledge with gratitude the willingness of our practice community to engage with ICAS in relation to Practice Monitoring, readily adapting to a new approach to remote reviews and meetings held via video conference and telephone.

Whilst the environment in 2020 naturally impacted on the way in which our work was conducted, and the number of reviews were reduced against initial expectation, we are proud of the way in which monitoring and regulatory activities continued during the period.

The messages in relation to general practice findings are mostly positive, and firms and practitioners 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. Under Regulation 46A of the Money Laundering Regulations we are now required to publish an annual supervision report in relation to AML matters. It is a requirement that this report is published for the period ending 31 March, so for the first time our AML supervision report is not reporting on a calendar year. The 2020/21 AML supervision report sets out detailed findings in relation to AML compliance, and firms are encouraged to read that report to help the process of continually improving compliance.

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.

If you have any comments or questions, please contact us at 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: Improvement Regulation

We aim to deliver improvement regulation (sometimes referred to as developmental regulation), which means that our monitoring activities are designed to both:

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

Our primary role is to effectively monitor our supervised population and to work with, and to support, firms to ensure compliance with requirements. The regulatory landscape is becoming increasingly challenging, meaning we require to act as a robust regulator.

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. The outcome of the Audit and Insolvency Monitoring reviews are presented in separate annual reports.

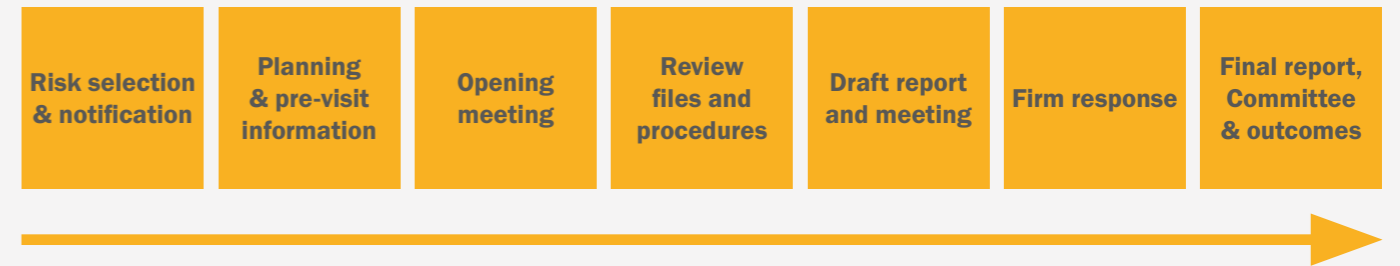
We risk assess firms to determine the timing and frequency of reviews. Historically we have undertaken most visits on site, with desktop reviews performed on smaller practices considered to be low risk. If desktop reviews are commenced that we subsequently identify as a higher risk than expected, then we escalate the nature of the visit. First visits to new practices, in normal times, are almost always on-site visits, although in 2020 many of these reviews were held remotely.

The onset of the Covid-19 pandemic meant that no on-site reviews have been undertaken since mid-March 2020. The majority of our firms have been able to accommodate a remote review during this period.

Remote reviews have broadly mirrored the approach that would have been taken had the review been undertaken on-site, with the impact on the logistical aspects of the process and the timing of engagement with practitioners.

How we review

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



How we review

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.

The remote visit approach implemented during 2020 because of the pandemic, follows a broadly similar structure to the on-site visit, although the planning and opening meeting may be undertaken much earlier than normal in order to facilitate the remote nature of the review.

Whilst we are pleased to have been able to continue our monitoring activities despite being unable to visit our firms, we have noted

that the visit process can sometimes be somewhat elongated, and again we would reiterate our appreciation of the flexibility afforded to our monitoring team by our firms allowing the review process to continue.

For more information about Practice Monitoring, please search for “practice monitoring” at [icas.com](https://www.icas.com).

Who we review

As at 31 December 2020 there were 922 firms registered with ICAS (2019: 947). Whilst firms vary in size, the majority are sole practitioners (c. 68%) and 2-3 partner (c. 22%) firms.

2020 monitoring outcomes

Overview

As has been highlighted throughout this report so far, 2020 was an exceptionally demanding year for our firms. In normal conditions, changes in payroll taxes, legislation and government policy can take several months or years to be implemented, however in 2020 firms were responding in real time to the constant changes in government policy as the enormity of the economic impact of Covid-19 became apparent.

These pressures were added into an already challenging and changeable regulatory backdrop with recent changes in Money Laundering Regulations, GDPR, UK GAAP and Making Tax Digital all still requiring attention.

Despite these demands and pressures, there is a strong level of compliance with general practice matters amongst firms reviewed during 2020.

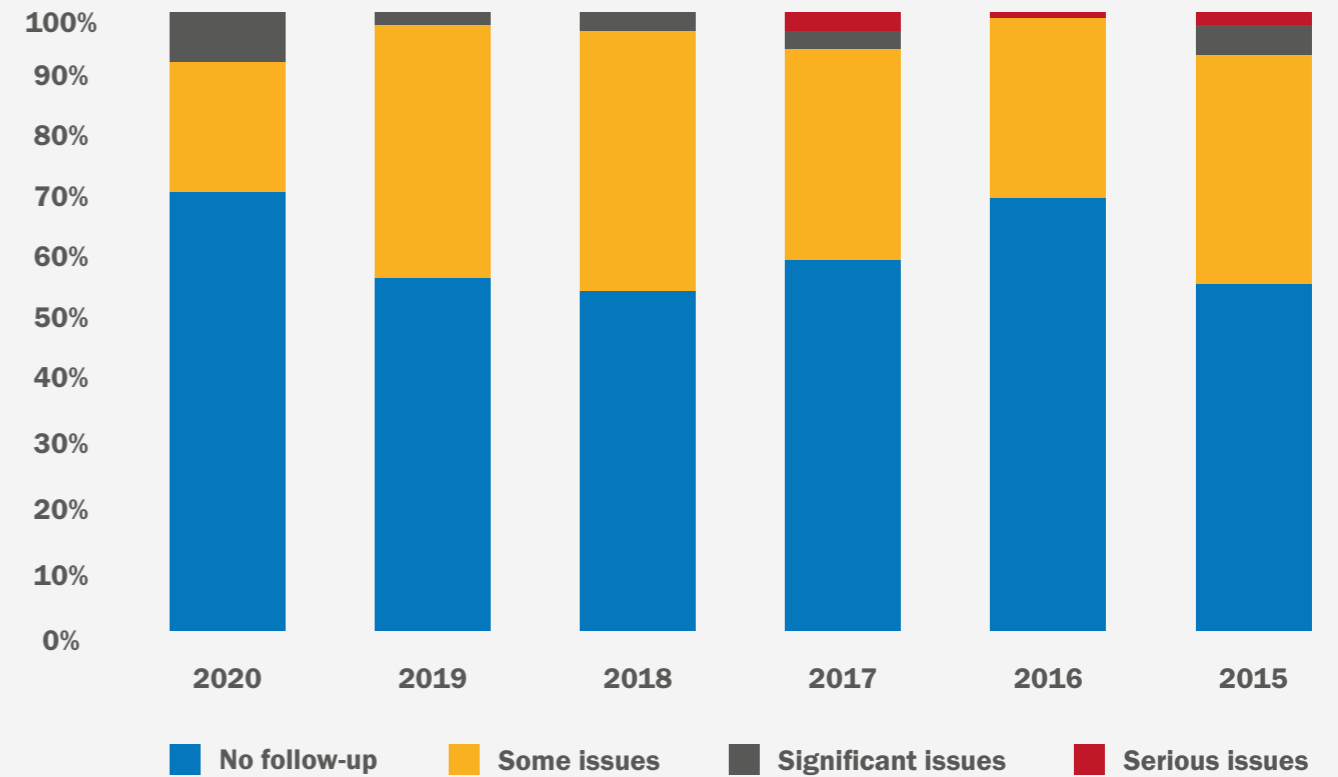
There remain areas where firms could improve, predominantly in relation to compliance with the Money Laundering Regulations. Our AML monitoring activity is reported in a separate report which can be found on [icas.com](https://www.icas.com).

Monitoring reviews and outcomes

During 2020, 80 firms (2019: 90) received a Practice Monitoring review, and we also undertook in the region of 25 follow-up reviews (2019: 55).

Only 9 reviews were performed on-site, with the remainder being conducted on a remote basis.

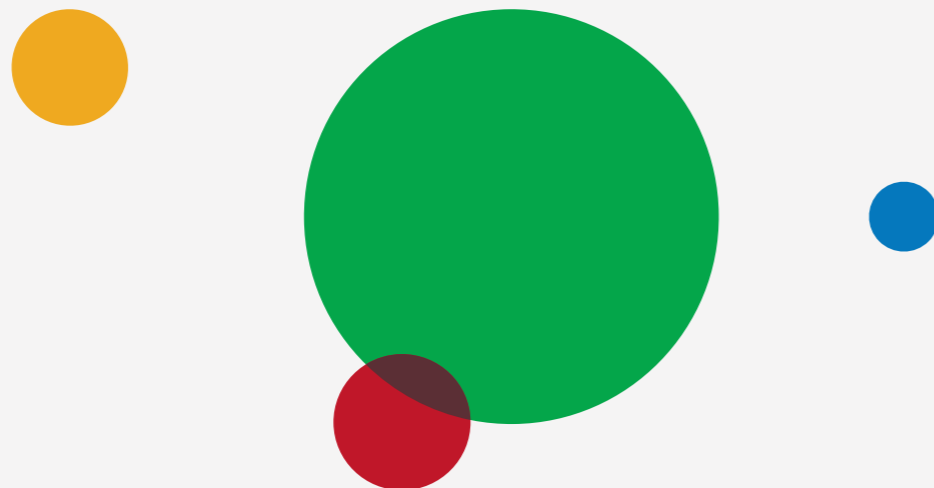
The outcome of the reviews carried out in 2020, compared to prior years, are summarised below (analysis by % of firms reviewed):



71% of firms reviewed in 2020 required no follow-up action, compared to 57% in 2019. Whilst the signs of improvement are welcome, it is important to note that the mix of firms reviewed each year is different, so caution is encouraged in drawing conclusions based on short term changes in trends.

The remaining firms are subject to some form of follow-up action, and 8% of the total reviews undertaken resulted in referral

for consideration by the full Authorisation Committee. These referrals predominantly arose where repeat issues were identified and these matters had previously already been subject to follow-up after a previous visit. It is noted that in the majority of instances the matters related to AML compliance, which is covered in a separate annual report.



2020 monitoring outcomes

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 after the Committee outcome letter is issued 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; and
 - AML 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;
 - the [Regulatory Actions Guidance](#) in relation to AML compliance became effective on 1 April 2019;
 - the impact of the guidance takes some time to work its way into the system but it is likely that a small number of firms may be subject to its provisions in early 2021;
 - the application of the Regulatory Actions guidance would not be considered to be the norm, but it represents an increased level of robustness to the regulation of AML; and
 - ICAS continues to focus on encouraging firms to be fully compliant through the provision of free guidance and assistance, in preference to immediate application of penalties or discipline.

Key themes

Anti-Money Laundering (AML)

The most common issues identified on Practice Monitoring reviews are AML related.

Under the Money Laundering Regulations, ICAS is required to publish an annual report on the impact of its supervisory activities in this area. This is separately published on [icas.com](https://www.icas.com).

Client Money

Whilst the number of firms handling client monies is diminishing, there are still a number of firms operating a client money account. Often this is to facilitate the receipt direct from HMRC of any tax refunds payable to clients.

It was noted during the year that there were two instances where client funds were being handled in an account that had not been separately designated as a client money account. The Client Money Regulations require that client funds be kept separate from the firm's own funds.

Updated Client Money Regulations were published in March 2020. Guidance and links to the Regulations can be found [here](#).

CPD

Most practitioners document the extent of their CPD activities, and our review process confirms that appropriate CPD is undertaken in most instances. In some cases the level of documentation could be improved, and occasionally gaps in activity were noted in

relation to AML compliance and in specialist areas, such as audit or charity accounting. In these instances a recommendation is raised for practitioners to ensure the ICAS CPD guidance and requirements are followed.

Guidance on requirements and a template to assist in recording activity in the appropriate manner can be found [here](#).

In addition, it is worth noting at this time that ICAS Council has given approval for compulsory ethics CPD to be introduced for all ICAS Members, with effect from 1 January 2021. Further information in this respect can be found [here](#).

Data Protection

The impact of GDPR and the extent that practitioners now process data electronically means that it is now more important than ever to be compliant in this area.

In 13% of reviews, it was noted that the firm had not paid the relevant registration fee to the Information Commissioner's Office. It is our expectation that every firm would be registered.

In 10% of the reviews undertaken, firms were not applying sufficient security especially when transmitting personal data electronically. Recommendations made typically advise firms to consider the implementation of some form of secure transmission such as encryption software or secure web portal arrangement.

Key themes

Firm name, use of description and designatory letters

In the majority of cases firms are using the description “Chartered Accountant(s)” or designatory letters “CA” appropriately. On occasion, firms use these terms inappropriately, for example when a minority of principals in the firm are CAs.

Firms should familiarise themselves with the guidance and regulations in this respect which can be found [here](#).

Client work

As part of the Practice Monitoring review process a sample of client work is normally reviewed. Commentary on common financial disclosure points is summarised separately below, but there are two other areas that are commonly noted during the review process:

- Engagement letters
- Chartered Accountant’s reports

Engagement letters

For non-audit work engagement letters are not mandatory, but certainly considered good practice. In 2020, around 10% of firms were noted as not issuing engagement letters; and a further 30% had engagement letters on file that were out of date. In some cases this is because the original engagement has grown and the additional work being undertaken is not covered by the original letter, or it may

be that the standard template the firm is using has out of date legislative references (such as Data Protection Act and Money Laundering Regulations).

Up to date engagement letter templates can be found in the General Practice Manual which is available [here](#).

Chartered Accountant’s Reports

In 20% of the cases reviewed in 2020, either no accountants report had been issued with accounts prepared by the firm, or the wording of the report did not follow the guidance offered by ICAS. Whilst not obligatory, it is considered good practice to issue a Chartered Accountant’s Report.

The latest wording of the report can be found in the Framework for the Preparation of Accounts which was updated in June 2020. This can be found [here](#).

Financial statement disclosure matters

Within the population of firms reviewed via Practice Monitoring, accounts are most commonly prepared under the requirements of FRS102 Section 1A. A summary of common disclosure issues noted is illustrated opposite.

2020 FRS102 1A Common Disclosure Issues

(expressed as a percentage of reviews undertaken)

| | |
|--|------|
| No basic financial instruments policy | 32 |
| No general provisions policy | 29.3 |
| Holiday pay accrual considerations not evident | 29.3 |
| No current tax policy | 10.7 |
| Average number of employees omitted/incorrect | 8 |
| No going concern disclosures (Covid issues or Balance sheet deficit) | 6.7 |
| HP interest incorrectly calculated on straight line basis | 5.3 |

Given the nature of clients serviced by our firms, several firms also prepare accounts under FRS105 (also known as micro-entity accounting). In this area, in our 2020 Practice Monitoring reviews, there were three instances noted where the firm had prepared accounts under FRS102 Section 1A for shareholders, but had filed micro entity accounts prepared under the FRS105 basis with Companies House.

It is important that the accounts prepared for shareholders and Companies House are prepared on the same basis.

Charity Accounts

Not all firms carry out work on behalf of charities. Those that do tend to carry out the independent examination of the accounts. In five cases reviewed in 2020 it was noted

that no work programme or evidence was retained on file to support the independent examination work undertaken.

OSCR provides guidance on what is expected in this respect for Scottish charities which can be found [here](#).

The Charity Commission in England and Wales has issued Directions that an independent examiner must follow and these are set out [here](#).

Some of the more common disclosure points noted during the review of charity accounts are summarised below:

- total amount donated by trustees omitted;
- details of payments made to key management personnel omitted;

Key themes

- no consideration of the requirement to accrue holiday pay;
- insufficient detail in the Trustees' Annual Report;
- small company references omitted from the Trustees' Annual Report; and
- insufficient disclosure or consideration of the legality of payments made to trustees.

Other matters identified during Practice Monitoring activities

A Practice Monitoring review covers a wide variety of areas. Whilst the following may not occur frequently, the points highlighted are still important to note:

DPB (Investment Business) licence

A DPB licence allows firms to undertake 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 provided by an ATP.
- Liaising with an insurer or loss adjustor in respect of insurance claims.
- Providing advice to individual minority shareholders in relation to the sale of a body corporate.

Further information on this can be found [here](#).

Where firms are not licensed, care should be taken when introducing clients to ATPs. Only a licensed firm can facilitate an introduction, although an unlicensed firm can provide details of the ATP to the client so long as they do not contact the ATP on behalf of the client to arrange an initial discussion and hence facilitate the introduction.

Ethics

In last year's Practice Monitoring report it was highlighted that in a small number of cases loans had been made to, or received from clients. On 1 January 2020 an updated Code of Ethics was published which made clear that only in exceptional circumstances might a loan made to a client be acceptable.

The Code of Ethics has been further updated with effect from 1 January 2021, and firms and practitioners are expected to be aware of, and comply with, the Code of Ethics. Members of ICAS are now required to include some aspect of Ethics training in their annual CPD activities.

The Code can be found [here](#).

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, a hub was launched for information and resources relating to the impact of the [Coronavirus pandemic](#).

Technical Support

The ICAS Technical Helpdesk provides advice and guidance on technical queries in relation to accounting, auditing, ethics, AML, tax and insolvency. The technical helpdesk can be accessed online via [icas.com](#) (search Technical Helpdesk).

ICAS General Practice Manual

ICAS provides a focussed, relevant and accessible resource for general practice in [The General Practice Manual \(GPM\)](#).

The GPM is available directly through [icas.com](#) and linked with members' logins. The GPM is also accessible to anyone within an ICAS firm. GPM will remain a free resource to ICAS Firms.

Framework for the preparation of accounts

The Framework sets out guidance on chartered accountants' professional responsibilities when undertaken an accounts preparation engagement. The guidance was updated in June 2020 and can be accessed [here](#).

Anti-Money Laundering Support and Advice

Advice re AML procedures and approach
If you have a question in relation to procedural matters in relation to Money Laundering compliance then contact our Practice team who will be happy to discuss your queries. They can be contacted at practicesupport@icas.com

Money laundering confidential helpline

If you have queries in relation to possible money laundering reporting issues then you can contact our helpline in confidence on 0131 347 0271.

Protect – Whistleblowing helpline

ICAS has joined forces with Protect to provide members with access to an independent, confidential helpline. This service offers free advice regarding whistleblowing and speaking up.

You can call the ICAS Protect Helpline on 0800 055 7215

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, contact practicesupport@icas.com



Contact us

CA House, 21 Haymarket Yards, Edinburgh, UK, EH12 5BH

+44 (0) 131 347 0271

connect@icas.com | [icas.com](https://www.icas.com)

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