



PRACTICE MONITORING
ANNUAL REPORT 2018



2018

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INTRODUCTION

We are pleased to present our annual report for 2018. 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 2018; and
- Key messages and detailed findings arising from monitoring visits.

Whilst the messages in relation to general practice findings are generally positive, compliance with Anti Money Laundering (AML) requirements has been challenging, with the implementation of the new Money Laundering Regulations 2017 (full title: The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017).

We have issued a stand-alone Anti Money Laundering Monitoring Annual Report with more detailed findings in relation to AML compliance which we urge you to read. This AML report also comes with a foreword from the Regulation Board to communicate the key messages to firms.

We hope that you find this Practice Monitoring 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 on auditandpracticemonitoring@icas.com.

Foreword

Compliance Results

97% of firms have achieved a generally acceptable level of compliance (compared to 94% last year).

There are no firms with “serious issues”, the lowest levels of compliance. This is mainly because we did not encounter the serious ethics issues identified on a small number of visits last year (mainly related to loans to/from clients).

UK GAAP implementation, for both corporate and charity accounts, which was a major issue last year, is bedding down.

However, there has been a reduction in the number of firms considered fully compliant from 60% last year to 55% this year, meaning more firms (45%) are now requiring follow-up checks for isolated issues identified on visits.

The main reason for this is Anti-Money Laundering (AML). The “goalposts have changed” as firms are now being measured against the new Money Laundering Regulations 2017, over which there is a learning curve.

Challenges

We understand that it has been another tough year for practitioners. Firms have been hit with a number of regulatory changes which impact general practice, including:

- The implementation of the Money Laundering Regulations 2017;
- The introduction of the General Data Protection Regulation (GDPR);
- The transition to New UK GAAP; and
- Making Tax Digital.

Whilst these changes have increased the workload of firms, this has not translated into increased fees. This, coupled with staff shortages faced by a number of firms, and difficult economic conditions, has led to a squeeze on firms’ resources, which may have led to some firms devoting less resources to AML compliance, than is required.

Main areas of focus

The most significant weaknesses identified in this report are the failure to adopt appropriate risk based Customer Due Diligence AML measures and to monitor these risk assessments on an ongoing basis. Approximately 30% of firms are still identified as having weaknesses in these areas. This is covered in more detail in the Key Themes section of the report.

Regulatory landscape

Our new AML Oversight body, The Office for Professional Body Anti-Money Laundering Supervision (“OPBAS”) has now been in power for a year, and it is already clear that it is expecting more punitive action for poor AML compliance.

In light of the above we are about to publish new guidance called “AML Regulatory Actions Guidance”, which aims to make the Authorisation Committee’s regulatory actions more transparent to our firms. This guidance also explains how regulatory penalties will operate in future. We continue to take a developmental regulator approach and regulatory penalties will continue to only be used in cases of serious non-compliance or where firms have delayed making improvements. This new guidance can be accessed at <https://www.icas.com/regulation/amlnews>

We urge firms to take corrective action now if you think your firm is not fully complying with the new requirements.

Actions Needed

The most important message for firms is to focus on ensuring that Customer Due Diligence client risk assessments are brought up to speed, and are adequately supported by know your client information, and that these risk assessments are being reviewed regularly.

Once you have read this report, we urge you to then read our AML Monitoring Annual Report which advises you in more detail of the AML weaknesses found on visits and of the steps that can be taken to address these.

A number of improvements have been seen in relation to a number of areas: including regular clients money compliance reviews and confirmation of trust status; and the inclusion of instalment credit terms in engagement letters.

The following areas are still recurring:

- **Firm not registered with ICO:** with the implementation of GDPR, it is vital that all firms ensure compliance with data protection requirements if handling or monitoring personal data;
- **CPD:** many 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.
- **AML CPD recommended:** following the implementation of the Money Laundering Regulations 2017, a number of principals in firms have been advised to consider obtaining AML related CPD, in order to get up to speed with the new requirements.
- **CA Logo and roundel:** Firms are reminded that use of “CA” in the firm’s website, email address and social media is encouraged but can only be used when the firm has applied to, and been granted a licence, from ICAS. A number of firms were also using the old ICAS branding and should again contact ICAS to be able to use the ICAS roundel.

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.

Our primary role is to effectively monitor our supervised population and to work with, and to support practitioners and firms to make any improvements required.

As explained previously, the regulatory landscape has become increasingly challenging, meaning we require to act as a robust regulator, when required.

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 are covered by 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 conducted desktop reviews during 2018 for the smallest practices assessed as 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 are almost always an on-site visit. We took the decision to cease telephone reviews, which was previously one of the methods of fulfilling monitoring responsibilities, following the implementation of the new Money Laundering Regulations 2017.

How we review

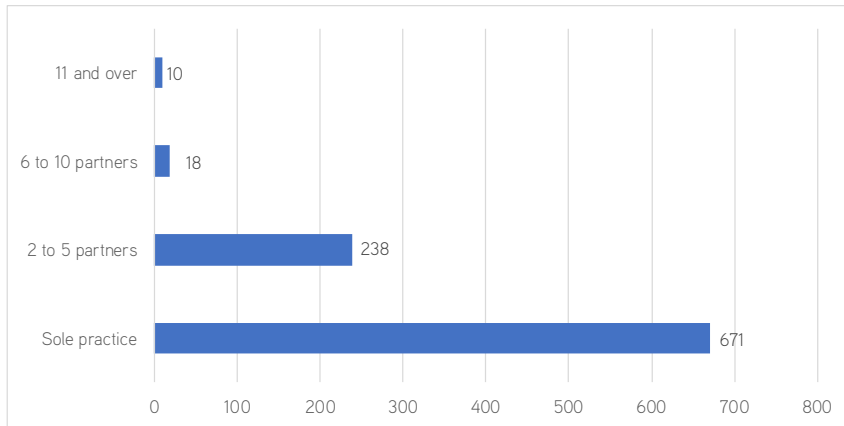
For more information about [Practice Monitoring](#), and the role of the Authorisation Committee, please search for “practice monitoring” at icas.com.

Who we review

We regulated 937 firms and conducted 161 reviews during 2018. We also conducted approximately 60 follow-up checks during 2017.

Size of firms regulated by ICAS at the end of 2018

Whilst our firms vary in size, the majority are sole practitioners and 2 partner firms.

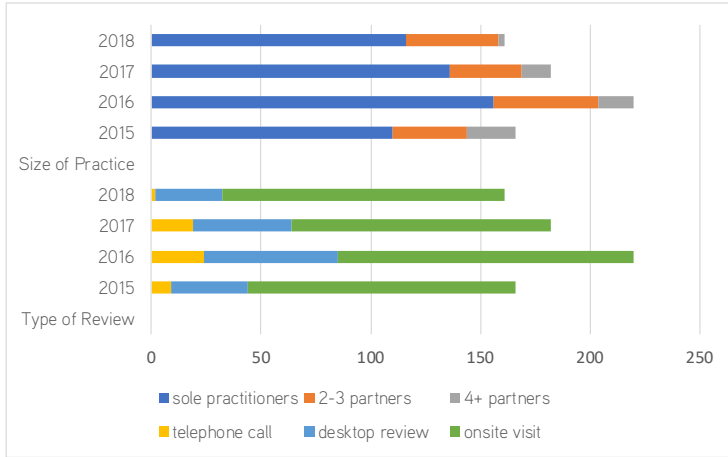


2018 Monitoring Results

Reviews

In 2018 we conducted 161 Practice Monitoring reviews (2017: 182, 2016: 220, 2015: 166, 2014: 189), via a combination of delivery methods, and to firms of differing sizes.

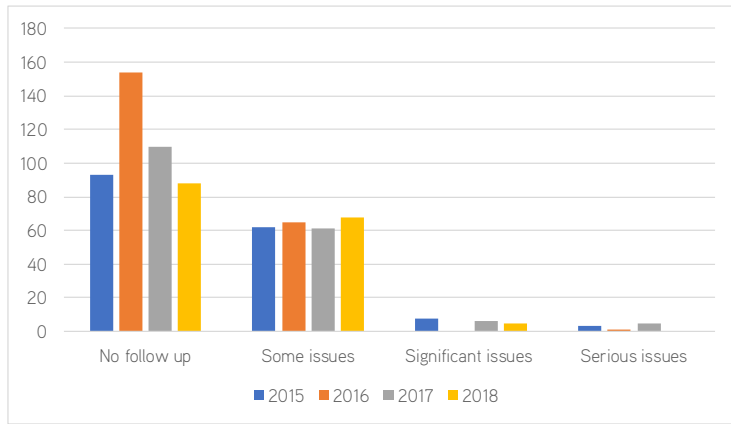
The majority of our reviews were to small firms, which mirrors our community of practitioners:



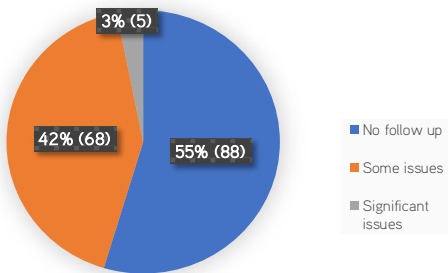
Whilst we have now ceased telephone reviews, a small number of 2017 telephone reviews were carried forward into 2018.

Review outcomes

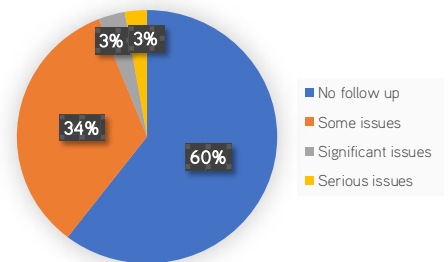
The results for the 161 reviews in 2018 compared to prior years were, by number of firms:



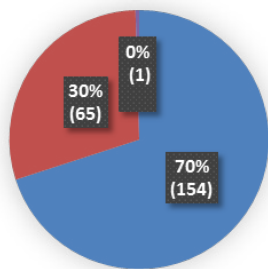
2018 Reviews



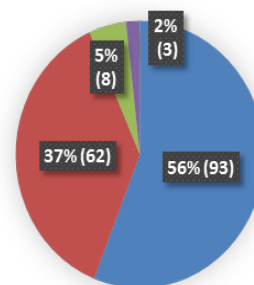
2017 Reviews



2016 Reviews



2015 Reviews



It is difficult to make comparisons year-on-year as:

- different firms are reviewed each year; and
- the regulatory landscape has changed significantly, with 2018 being the first monitoring year in which both UK GAAP implementation and the implementation of the new Money Laundering Regulations 2017 had been considered across the firm population (in the previous monitoring year, these new requirements only started to impact the monitoring of engagement files part way through the year).

Despite the challenges being faced, 55% of firms achieved good compliance standards and required no follow-up. It is also important to note that there were no firms which were considered to have “serious issues” i.e. the most serious review outcome (compared to 3% of firms last year).

45% of firms reviewed require follow-up checks following their 2018 monitoring review. Of this only 3% of firms have more widespread follow-up checks required, with only 42% of firms requiring only limited aspects followed up, which is mainly implementation of new AML requirements from the Money Laundering Regulations 2017. The increase in firms requiring AML follow-up checks was anticipated given the learning curve in relation to these new regulations.

You will see that this year there were only a small number of firms with significant issues (3%- the same level as last year), while there was no firms with serious issues.

As previously mentioned the serious ethical issues encountered last year in relation to loans to/from clients had not recurred.

The Authorisation Committee has a range of powers at its disposal for more serious reports and may impose conditions or restrictions; regulatory penalties; or make referrals to the Investigation Committee. Given most firms needing follow-up only had isolated issues to resolve, this year’s enforcement actions were mainly directed towards follow-up check conditions, with firms with poorer compliance or delays being required to pay for follow-up checks.

Key Themes

Anti Money Laundering (AML)

The most common issues identified on reviews are AML related. This is the first year all firms reviewed were measured against the new Money Laundering Regulations 2017, which have been live for over a year, which has inevitably resulted in firms facing a learning curve.

Our new oversight body, OPBAS, charged with ensuring consistent supervision in the legal and accountancy sectors, has been operational for over a year. Its powers are wide, and its message is clear: that poor compliance cannot be tolerated.

Some of the findings are new, but some are repeated from previous years. It is apparent from monitoring visits that AML compliance can be viewed by some firms as an administrative job that is not a priority.

Given the change in regulatory landscape AML compliance needs to be prioritised and sufficient time and resources allocated to it. It is particularly important to ensure that you understand the main AML risks being faced by your firm and ensure that areas of higher risk are being given sufficient attention.

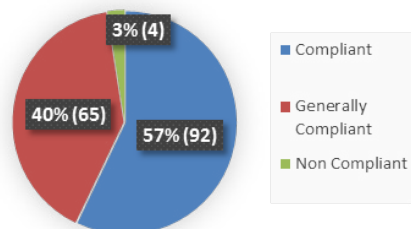
We have summarised the main issues below. Our stand-alone AML Monitoring Annual Report provides more detail on each area and we would advise you to also read that report.

We are required to report to HM Treasury, and going forward to our new regulator OPBAS, whether firms are:

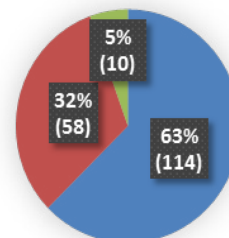
- Compliant;
- Generally Compliant; or
- Non-Compliant.

The AML Compliance statistics for the last four years are highlighted below.

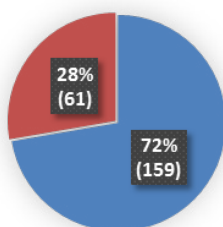
2018 Reviews



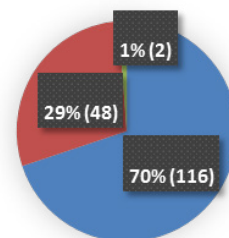
2017 Reviews



2016 Reviews



2015 Reviews



Whilst 97% of firms (95% in 2017) of firms do not have serious AML non-compliance, issues in this area result in in most follow-up checks.

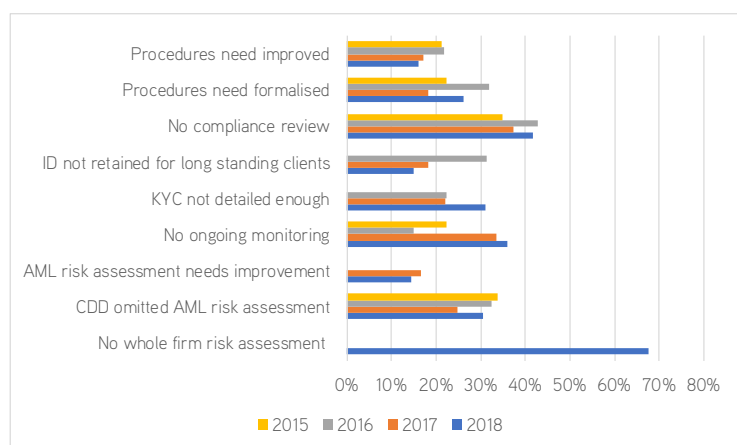
The number of compliant firms has reduced to 57% of firms reviewed (from 63% in 2017, 72% in 2016 and 70% in 2015). 43% of firms reviewed in 2018 (compared to 37% in 2018) are now subject to AML follow-up checks.

We take a robust approach to following up on issues because we want to ensure that firms get to grips with the new regulations quickly. Our new oversight body, OPBAS, also expects robust follow up action to be taken.

The most serious failings we see are in customer due diligence and ongoing monitoring. Approximately 30% of firms reviewed still need to improve their approach to assessing and evidencing risk based customer diligence, and ensuring that these risk assessments are reviewed (and updated if necessary) on a regular basis. This is explained below.

When 57% AML compliance is compared to the previous Practice Monitoring compliance results of 55% of firms requiring follow-up checks you will see that AML issues alone are driving most of the follow-up checks required after a Practice Monitoring review.

The main AML findings are noted below:



We start with one of the most common findings on monitoring visits, Customer Due Diligence.

Customer Due Diligence – including AML Risk Assessment

The nature of customer due diligence issues are changing. Following the introduction of the Money Laundering Regulations 2017 the focus is very much on obtaining sufficient information to make a full and informed client AML risk assessment, and identify measures to reduce, manage or eradicate the risk.

Improvements in compliance have been seen in relation to a number of areas including client identification procedures and some Know Your Client (KYC) areas.

You will see that the second highest finding is that 30% of firms reviewed had engagement files where clients had not been risk assessed. This is marginally up on last year, but improved on 2016.

Whilst this has been a longstanding requirement, the new regulations are far more explicit on how this is the focus of CDD and what criteria need to be considered in making your risk assessment.

The risk assessments should include consideration of the main five risk criteria of:

- the nature of client;
- geography;
- nature of services being provided to client;
- the transactions of the client; and
- the means of delivery of the services to the client.

Ongoing Monitoring

The most recurring finding is a lack of ongoing monitoring. 36% of firms reviewed did not conduct ongoing monitoring of clients.

Each client's risk should be reviewed on an ongoing basis, and the risk assessment should be updated to reflect any changes or new risks. The frequency and extent of ongoing monitoring will depend on the current AML risk assessment. The higher the risk, the more frequent and in-depth the monitoring should be.

KYC not sufficiently detailed

However, the main findings is that there is not always enough client details recorded to support the AML client risk assessment. The client risk assessment depends on sufficient documentation of the client's business, locations, services, history, ownership, financing, connections, trading results etc. to assess the five risk criteria mentioned earlier.

Firm-Wide (Whole Firm) Risk Assessment

Of the 161 firms visited, 109 firms were still to complete a whole firm risk assessment, 41 of these were firms visited one year after the regulations were introduced.

This is a new requirement. Regulation 18 of the Money Laundering Regulations 2017 require firms to assess the money laundering risk for the whole firm. The risk assessment should be carried out at least annually, but updated for any new and changing risks, when they are identified.

ICAS has produced a risk template, guidance and case-studies to help you complete your risk assessment. These were made available in February 2018 on the AML news section of icas.com.

If your firm has not yet completed a firm-wide risk assessment it is important that this is done as soon as possible. If you have not submitted your risk assessment to ICAS, this will be requested in your next Firms Annual Return during 2019.

Where firms have completed a firm-wide risk assessment, these have generally been completed well and there have been very few, to date, where the monitoring team have identified risks which have not been picked up by the firm.

Compliance Reviews

As with previous years, the lack of a regular AML compliance review continues to be a regular finding on visits and one which firms could easily remedy. This year, 42% of firms had not conducted a compliance review.

The purpose of this review is to act as a "healthcheck" on your firm's AML compliance and identify weaknesses in policies and procedures which you can improve on a timely basis, and before the monitoring team come calling.

Procedures

Key to all of the above is ensuring that your firm has up to date procedures in place. Improvements have been seen generally across the last three years, mainly due to the implementation of General Practice Procedures Manual ("GPPM") which ICAS has made available free to all eligible firms (and the AML section free for all ICAS supervised firms).

Please remember to tailor the procedures to your firm's circumstances.

AML Training

Most firms, by now, are familiar with the requirements to train all principals and staff on the money laundering requirements and the risks in their firm, and hence it is not included in the chart as a top finding. However, firms are also reminded to ensure that:

- staff and principals should be kept informed of the risks identified as part of Customer Due Diligence and in the firm-wide risk assessment;
- evidence is retained of all AML training;
- a test or confirmation of understanding for staff members is advisable; and
- the MLRO and ML Compliance Principal should have more in-depth training for their roles, given their additional responsibilities.

Supervision Issues

Under Regulation 26 of the Money Laundering Regulations 2017 all Beneficial Owners Officers and Managers (“BOOMs”) must be approved by their relevant AML supervisor. During 2018, ICAS conducted an approval process to ensure that all firms and BOOMs were approved under these new requirements.

Firms are reminded that:

- ICAS must be informed of all legal entities in the firm, or connected to the firm, conducting accountancy or Trust & Company Service Provider (TCSP) services;
- All BOOMs in each entity must be approved by ICAS using the AML approval process;
- The firm must conduct a disclosure check (i.e. Disclosure Scotland in Scotland, DBS in England) for each BOOM and ensure that the BOOM has no relevant offences. Any relevant offences must be notified to ICAS.

Firms are therefore reminded to keep the Regulatory Authorisations team up to date for any changes to legal entities in your firm or any changes to BOOMs.

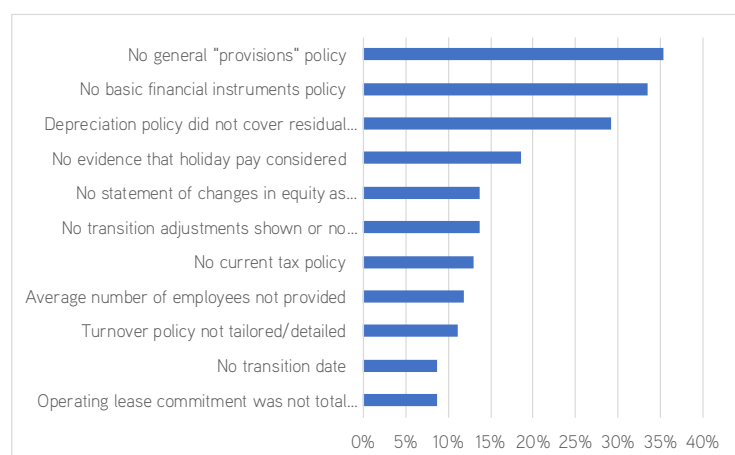
UK GAAP- Company Accounts

Readers may recall that last year there were a number of more serious findings relating to UK GAAP implementation, which resulted in a number of firms being placed on follow-up checks. Accounting software issues contributed to these implementation issues. The most serious findings included firms adopting the wrong accounting framework, particularly in relation to charity accounts.

This year it is clear that UK GAAP implementation is largely bedding down and the nature of the issues raised are mainly disclosure omissions. Particularly in relation to the lack of disclosure of accounting policies. Isolated disclosure issues are unlikely to result in follow-up checks, and it is only where the number of disclosure issues are more widespread, or the impact on the accounts is material, that a follow -up check will be required.

The main issues identified on 2018 reviews are noted below:

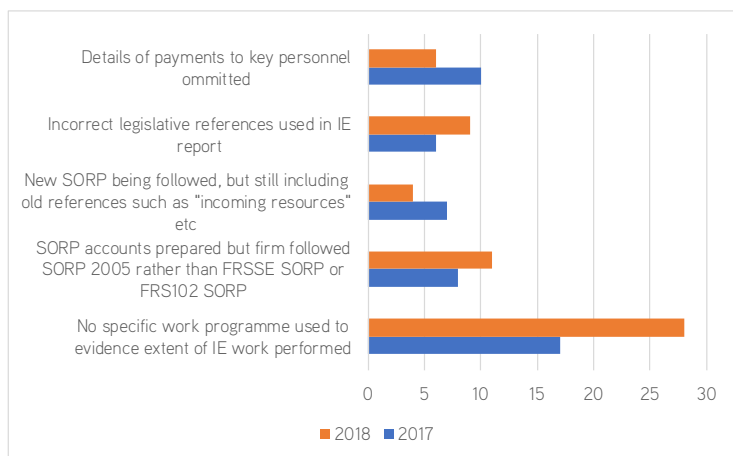
2018 Common Disclosure Issues: Corporate Accounts



Charity Accounts

Last year, you may recall that charity disclosures were particularly problematic, given the transition between the 2005 Charity SORP, the FRSSE SORP and FRS 102 SORP. Now that the FRS 102 SORP has been fully implemented the level of disclosure issues has reduced and are noted below:

2018 Charity Accounts Issues (expressed as total number of firms with issues)



The main issue noted in relation to charity accounts files reviewed, is the lack of Independent Examiner (IE) work programmes adopted to document the extent of work conducted in support of the IE report.

As with last year, firms are still reminded about their duty to report matters of material significance to OSCAR and the Charity Commissioner.

The 2017 report contains detailed information about this. Your attention is drawn to joint guidance issued on charity reporting, issued in November 2017.

ICAS Support

We take a developmental approach to regulation, and we have a number of initiatives to assist our community of firms in complying with compliance requirements.

ICAS New Technical and Regulatory Help: New Online Bank of Resources and a New Digital Service.

The new online bank of resources is the first port of call for members with regulatory or technical queries. FAQs on ICAS regulatory matters and links to technical guides can now be accessed via one central point.

Our comprehensive FAQs and guides should resolve the majority of queries, but if an answer can't be found, a question can now be logged with our technical teams using the new digital technical queries portal.

The digital portal makes it easier for members to identify and contact the appropriate technical team, which will help provide a faster response time. It replaces the process of submitting queries by email. The new digital portal also offers greater security and data protection.

You can submit technical and regulatory queries on:

- Accounting and auditing
- Tax
- Practice support
- Anti-money laundering and GDPR
- Insolvency
- Ethics

The AML section includes the following key publications:

- SARs guidance.
- DAML guidance.
- Information on current ML/Terrorist Financing risks.
- A link to the BOOM application process.
- A link to the new Money Laundering Regulations 2017;
- An explanation booklet on the key changes brought about by the new regulations;
- A link to the new draft CCAB Anti Money Laundering Guidance for the Accountancy Sector;
- The new ICAS Firm-Wide Risk Assessment, Guidance & Templates (see below);
- A link to the new FCA PEP Guidance; and
- Our consultation responses to various HM Treasury and Financial Conduct Authority consultations on the future of AML regulation.

ICAS Firm-Wide Risk Assessment, Guidance & Templates

In February 2018, the Practice Monitoring team issued guidance on the new requirement to conduct a firm-wide AML risk assessment (a requirement of Section 18 of the new Money Laundering Regulations 2017).

This guidance includes the following:

- A new template risk assessment;
- Guidance explaining how to conduct the firm-wide risk assessment, and keep it up to date;
- Two worked examples, showing how the template can be used in practice.

This guidance is aimed at supporting our practitioners and is not mandatory. Firms can use other proprietary checklists, or develop their own approach, if preferred. The Monitoring Team have noted that some proprietary checklists do not always conclude with an overall risk assessment and therefore firms are encouraged to record an overall concluding risk assessment for their articles have included:

CA Practice digital magazine

CA Practice digital magazine brings the latest essential information, news and views for those in public practice. Issued on the third Thursday of each month CA Practice has been designed to alert you to important issues and inform you of the ICAS practice team's activities and important course dates.

Previous issues have included:

- AML developments: recent articles have included FAQs on DAML, and the Top 4 AML Fundamentals.
- Making Tax Digital updates
- GDPR
- Practice development
- Technical Bulletin roundup.

The current issue can be accessed at capractice.icas.com.

Back-dated copies can be accessed at <https://www.icas.com/ca-today-news/icas-digital-magazines/ca-practice/ca-practice>.

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.

Practice Management Course

In 2014, ICAS introduced a mandatory requirement to attend the Practice Management Course once every five years. This is the final year of the first cycle and all members in practice are required to have completed a Practice Management Course by 30 April 2019. In addition, any member having been granted a practising certificate since 2014 have been required to attend a Practice Management Course within 12 months.

While maximum benefit from the course can be obtained from attending one of the courses held in locations around the country, we recognise that personal circumstances may make it difficult for all members in practice to attend a course. An online digital learning course has therefore been developed which allows everyone to access the course and meet their mandatory participation requirement

The online course is made up of three modules. They can be undertaken at a time suitable for you (over a number of sessions if required) using any device such as desktop, mobile or tablet.

- **Anti-Money Laundering Update**

This module covers, an overview of who is regulated and the legislation in place. The most frequent AML issues encountered by the practice monitoring team and guidance on what firms need to do to demonstrate compliance. An overview of the new requirements brought in in 2017, and finally also looks at the practical issues faced, such as completing a Suspicious Activity Report.

- **Data Protection: Beyond GDPR**

This module considers data protection more generally and then delivers 10 key messages on how practitioners should be embedding a data privacy culture within their firm, and why GDPR compliance is not a one-off exercise.

- **ICAS: Here to Help**

This module highlights the work and resources done by ICAS to benefit CA practitioners, and how we are improving the experience for the practice community.

Firms Annual Return

We are currently transitioning to a new online Firms Annual Return. Firms with September 2018 month-end return dates onwards will be asked to complete their return online.

The return now contains a significantly expanded section on AML, and it also asks you to upload your firm's firm-wide risk assessment.

If you have any questions about your new return please contact far@icas.com or phone 0131 347 0281.

AML Regulatory Actions Guidance

As explained in the Foreword, ICAS is about to publish an "AML Regulatory Actions Guidance" which is aimed at:

- Guiding the Authorisation Committee (and Review Panel) in making regulatory decisions, particularly in relation to Regulatory Penalties;
- Help firms understand what action is likely to be taken, and why; and
- Act as a deterrent.

This guide includes

- the Committee's powers and remit in relation to AML;
- a flowchart which explains what happens to firm from the start to the end of visit process, including what happens if a firm delays in improving. It explains the interaction between follow-up checks, progress updates, and regulatory penalties; and
- it provides a regulatory penalty table showing the type of penalty that could be expected by a firm, if it delays in making improvements.

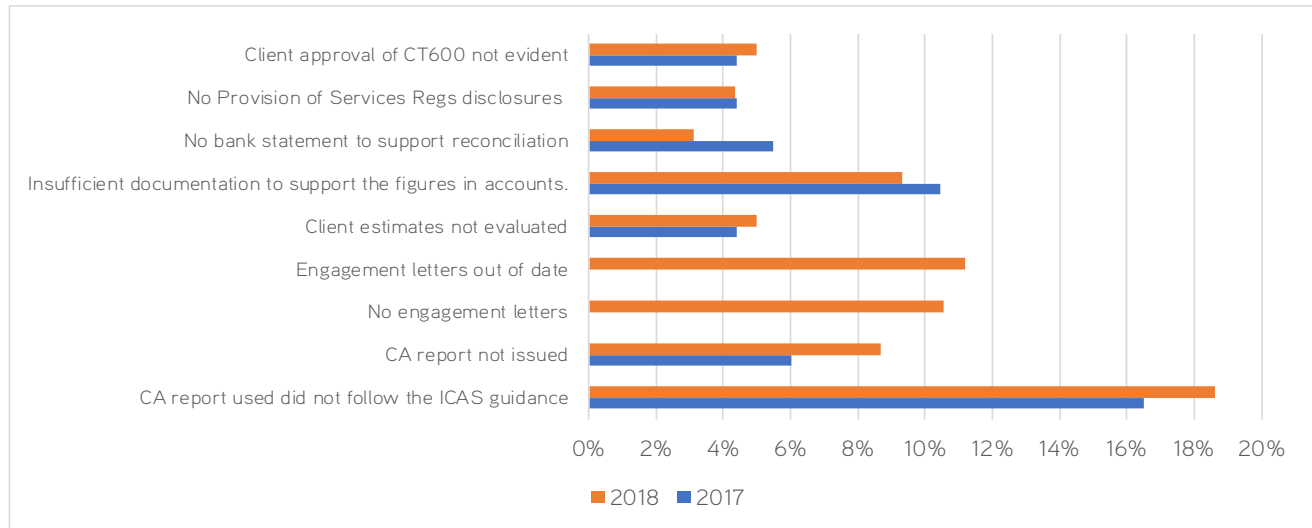
The most common firm-wide issue continues to be the lack of an effective compliance review process which has been covered in the Key Themes section of this report.

Appendix One:

Detailed review findings

We have already covered the most common issues on Practice Monitoring reviews. This appendix includes a number of other common findings.

Other Client Work Findings

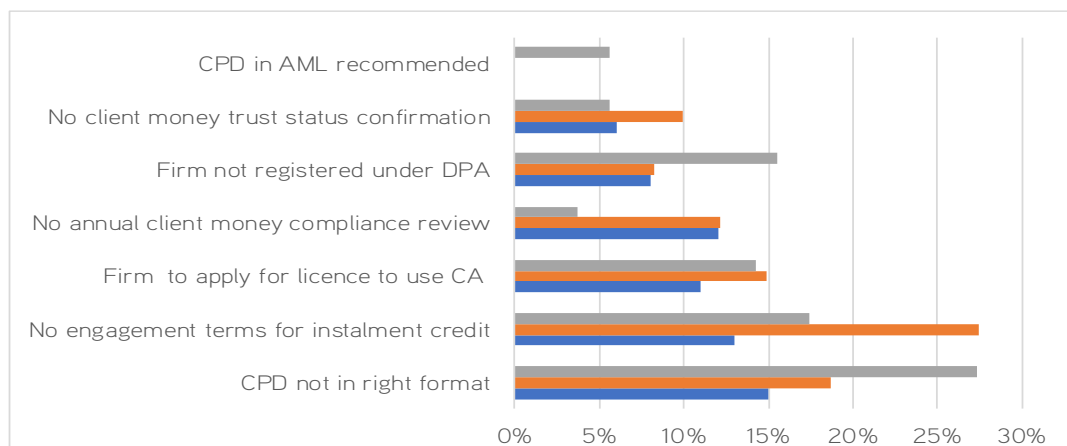


The most common work findings are the Chartered Accountant reports not following ICAS Guidance and firms not having appropriately up to date engagement letters in place.

Firms are reminded that both the CA report template and sample engagement letters and standard terms are all available for free on GPPM for eligible firms (please see the ICAS Support section for more information).

Other Common findings

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



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.

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

- **Regulatory authorisations:** if you have any queries regarding your firm's ICAS AML supervision or the approved persons within your firm, please contact regulatoryauthorisations@icas.com or phone 0131 347 0286.
- **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:** 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 0131 347 0249 or email practicesupport@icas.com



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