

## **ICAEW practice assurance (Lecture A807 – 12.26 minutes)**

Each year, the Institute of Chartered Accountants in England and Wales (ICAEW) issues a report outlining the work they have performed on practice assurance reviews. These reports are useful in that they can identify pitfalls which firms must avoid. Breaches of rules and regulations frequently result in disciplinary action being taken against the firm.

All regulated firms will undergo some form of assurance review and the frequency of these reviews usually depends on the relevant professional body's requirements. These types of reviews may look at the firm as a whole to see how their procedures and processes are working, or they may focus on individual aspects of the firm, such as audit work and in-house procedures.

The latest report by ICAEW concerns reviews of firms which were carried out in 2021 when government guidance relating to the pandemic was still in force. In 2021, practice assurance focused on assurance and other reports, specifically:

- Independent examination reports on charities
- SRA Accounts Rules
- Service charge accounts
- Assurance reports on client assets to the Financial Conduct Authority

### **1.1 Independent examination reports (IER) on charities**

The report confirms that specific teams often carry out the work on these assignments, which is understandable given their specialist nature. Findings by ICAEW were as follows:

- 94% had sent a letter of engagement to the client covering the IER services and these included references to whistleblowing to The Charity Commission. ICAEW stated that some of the engagement letters were quite old and were poorly tailored (e.g. referring to incorporated charities when the client was an unincorporated charity and vice versa).
- 94% of the files contained evidence that the firm had checked that the client did not require an audit. However, only 75% had documented an understanding of how the charity was constituted, its objectives, organisational structure and activities.
- 15% of the firms had considered the independence of the engagement team carrying out the work.

Most firms had sufficient documentation in respect of the work done during the examination. However, ICAEW only found that 65% of the firms had documented procedures to:

- identify and consider significant estimates and judgements;
- ensure the trustees had undertaken a review of internal financial controls during the year;
- review steps taken by the trustees to ensure that restricted or endowed funds were correctly reported in the financial statements; and

- establish that related party disclosures were correct and complete.

The report also confirms that:

- 69% of firms had obtained written representations from the trustees.
- 88% of firms demonstrated there was evidence of a review of the work carried out (although all firms informed ICAEW that there was a process in place to review all reports prior to their issuance).
- Only 58% of firms had carried out a 'cold' file review of IER assignments.
- 3% of firms had reported matters of material significance to The Charity Commission.

## **1.2 SRA Accounts Rules assignments**

The ICAEW found that all firms were using standard checklists or work programmes to carry out SRA Accounts Rules assignments. All firms reviewed had updated these programmes to reflect the 2019 changes to the SRA Accounts Rules.

The ICAEW findings were as follows:

- 96% of firms said they had strengthened their planning procedures following the 2019 rules and they had an increased emphasis on risk assessment.
- 92% of firms had specific teams that were used to carry out these assignments and all key staff and principals had received specific training on the 2019 changes.
- 66% of firms had carried out 'cold' reviews of SRA Accounts Rules assignments.
- 36% of firms had issued a qualified accountant's report in the last 12 months and 4% had made whistleblowing reports to the Solicitors Regulation Authority.

## **1.3 Service charge accounts**

The report confirms that ICAEW only reviewed a small number of firms in 2021 that prepare service charge accounts and hence their findings may not be representative. The findings were as follows:

- 50% of firms engaged with managing agents rather than directly with the directors.
- Only 75% of firms had obtained a copy of the lease and had reviewed it to ensure that they would adhere to all the requirements of the lease.
- Only 86% of engagement letters made the scope of the assignment clear.
- 87% of firms have procedures manuals to assist them when carrying out service charge accounts work and 88% of the firms had a record of the work being reviewed.
- Only 27% of firms carried out 'cold' file reviews of service charge assignments.

## **1.4 Assurance reports on client assets to the FCA**

The ICAEW confirmed that all firms reviewed were using standard checklists or work programmes and had ensured that members of the engagement team had access to the Client Asset Assurance Standard.

All firms reviewed had an understanding of the client's business models and the permissions they had been granted by the FCA.

The ICAEW also found that firms had appropriate procedures in place to plan their assignments, document the work performed and carry out a quality review prior to the report being signed.

### **1.5 Referrals to the Practice Assurance Committee (PAC)**

Sometime standards fall short of the mark and practice assurance reviewers may decide that a firm's deficiencies are serious enough to warrant a report to the PAC.

The report confirms that the PAC considered 24 reports in 2021 as opposed to 34 in 2020. Some of the reasons include:

- Seven firms had failed to address issues that had been raised at their previous reviews which found significant weaknesses in their approach to compliance with anti-money laundering regulations. In some cases the weaknesses were in relation to compliance with Clients' Money Regulations.
- Three firms had significant breaches of Clients' Money Regulations.
- Four firms did not respond to the findings raised at ICAEW's review.
- Four firms were using the designation 'Chartered Accountants' when they were not entitled to do so.
- Two ICAEW members were carrying out public practice without a practising certificate.
- Other factors included:
  - signing an independent examination report (for a charity) when the client required an audit; and
  - providing a self-insured tax-free protection scheme and referring clients to restricted financial advisers without appropriate consideration that the needs of the client would be met.

ICAEW advise firms to review the points raised at the last assurance review and ensure that action has been taken to remedy any deficiencies. Where a firm holds client money, the firm must ensure that it is familiar with the Client's Money Regulations and have robust procedures to ensure the firm complies with them. Also, ensure that the firm is eligible to use the description 'Chartered Accountants', especially where the principals/shareholders may have changed.

### **1.6 Areas to watch out for**

Reports such as the one issued by ICAEW are very useful to practitioners (even those that may not be regulated by ICAEW) because they help to highlight weaknesses that are found at firms that may be weaknesses in your own practice.

It is always worthwhile carrying out reviews of key areas such as the above to ensure you are compliant with your professional body's requirements, in particular keep a check on:

- Compliance with anti-money laundering regulations.
- Clients' Money Regulations.
- Ensuring that the basis of fees and the firm's complaints procedure are communicated to all clients in writing (usually through the letter of engagement).
- Eligibility issues, annual returns and notifying the professional body of any changes to the firm's structure.
- Compliance with the Code of Ethics.
- DBS boundary issues and referrals to financial advisers.
- Ensuring adequate Professional Indemnity Insurance is in place.
- Compliance with General Data Protection Regulations.

Where your professional body has carried out a review and has highlighted weaknesses in the firm's internal procedures, the firm must ensure they address the deficiencies and put controls in place to prevent the weakness from arising again. Keep in mind that if any future assurance review discovers the firm has not addressed previously notified deficiencies, the firm can expect sanctions against it.