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INTRODUCTION

We are pleased to present our annual report for 2016. As in previous years, this report aims to provide transparency over our work and includes:

• An overview of the visit outcomes of ICAS Practice, Audit and Insolvency Monitoring during 2016;
• CPD;
• Complaints.

WHAT WE DO

Background: Developmental Regulation
We aim to deliver Developmental Regulation. This means that the ICAS approach is designed to both:
• support the work of ICAS firms; and
• uphold standards and provide reassurance to the public.

Our primary aim is to work with, and to support, firms to make any improvements required.

We will still take regulatory action in the most serious of cases.
Visits
In 2016 we conducted 40 Audit Monitoring visits (2015: 38), covering our full range of firms. 36 of the visits were full-scope visits; 2 were restricted to file reviews of specific types of engagement; and 2 were desktop reviews of audit firms with no current audit clients. The table below shows the size of the firms we visited in 2016.

<table>
<thead>
<tr>
<th>Firms Visited</th>
<th>sole practitioners</th>
<th>2-3 partners</th>
<th>4+ partners</th>
<th>firms with major audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>10</td>
<td>19</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>2015</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>1</td>
</tr>
</tbody>
</table>

Visit outcomes
The results for the 36 full scope visits in 2016 were:

All isolated, systemic issues and serious issues resulted in the Authorisation Committee requiring the firm to submit evidence of follow-up action. The above shows that 89% of firms receiving a full-scope visit during 2016 had no systemic/serious audit quality issues.
In 2016 we conducted 220 Practice Monitoring visits (2015: 166; 2014: 189), via a combination of delivery methods, and to firms of differing sizes:

The majority of our visits were to small firms, which mirrors our demographic, where approximately 74% are 1 to 3 principal firms.

### 2016 Visits

<table>
<thead>
<tr>
<th>Size of Practice</th>
<th>Type of Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2016</td>
</tr>
<tr>
<td>2-3 partners</td>
<td>156</td>
</tr>
<tr>
<td>4+ partners</td>
<td>110</td>
</tr>
<tr>
<td>telephone call</td>
<td>34</td>
</tr>
<tr>
<td>desktop review</td>
<td>61</td>
</tr>
<tr>
<td>onsite visit</td>
<td>122</td>
</tr>
<tr>
<td>sole practitioners</td>
<td>135</td>
</tr>
</tbody>
</table>

### Visit outcomes

The results for the 220 visits in 2016 were (by firm numbers):
Visit outcomes

The results for the 2016 visits were as follows. Comparisons are given with 2015.

It is difficult to make comparisons year-on-year as different firms are visited. It is encouraging that 70% of firms visited in 2016 achieved satisfactory standards of compliance and required no follow up. 30% of firms required follow up checks for certain aspects. In the main this related to procedural issues in relation to Anti-Money Laundering, but the second most common area of follow up relates to financial statement disclosures. No regulatory action required to be taken against any firm.

Where there are specific areas that require significant improvement, or where repeat findings are identified, the firm will be subject to follow-up checks by Practice Monitoring. In the most serious of cases, the Committee may impose conditions or restrictions; regulatory penalties; or make referrals to the Investigation Committee; or potentially withdraw or suspend a Practising Certificate, although these situations are infrequent and no such cases occurred during 2016.
2016 INSOLVENCY MONITORING RESULTS

Visits
In 2016 we conducted 28 ICAS Insolvency Monitoring visits (2015: 22), covering our full range of practitioners and firms. There were 26 routine visits and 2 follow up visits.

Visit outcomes
The results for the 26 routine full scope visits in 2016 were:

- **2015 visits**: 82% No follow up, 18% Systemic Issues
- **2016 visits**: 84% No follow up, 8% Systemic Issues

It is difficult to make comparisons year-on-year as different practitioners are visited. It is encouraging that over 80% of IPs visited in both 2015 and 2016 achieved satisfactory standards of compliance and required no follow up action.

Most IPs continue to demonstrate good standards of practice. Most issues identified in case reviews, and reported as findings, were:

- incidents of late compliance with statutory timescales;
- inadvertent omissions in the provision of information; and
- failure to fully complete checklists and procedures already in place.

Where there are only a relatively small number of such procedural findings, no follow up action is usually necessary. Follow up action arises where the extent of issues are more widespread or more significant in nature. Only 8% of IPs visited fell into this “systemic issues” category during 2016.

Visits falling into the “serious issues” category tend to include:

- serious clients’ money issues;
- serious ethical issues; or
- serious issues in the management of insolvency cases, in some cases leading to creditor detriment.

Whilst there were no such visits last year, two 2016 visits identified serious issues. Such reports are always decided upon by the full Committee.

The Committee can take a range of follow up and regulatory actions. IPs may have conditions or restrictions placed upon their licence, they may require to submit information to the Committee or they may require to submit to a follow-up visit. Other, more serious, regulatory interventions includes referral to the Investigation Committee, regulatory penalties or licence withdrawal. The more serious regulatory interventions are exceptional.
New complaints
ICAS received 83 new complaints in 2016.

What we’re investigating
While most investigations start with a complaint from a member of the public – usually a former client of the Chartered Accountant – matters can also come to the attention of the Investigations Department following referrals from other parts of ICAS (e.g. through regulatory monitoring or CPD sampling) and third parties (e.g. other regulators or the police).

No two investigations are the same. Complainers come to ICAS with a wide range of issues and concerns. Therefore, some caution is needed when categorising the complaints we investigate.

With this caveat in mind, the 83 complaints received in 2016 may be summarised as follows:
71% of the investigations closed involved complaints received by ICAS in 2016. The following chart shows the different outcomes for the 81 completed investigations:

Orders
The Investigation Committee identified a liability to disciplinary action in 11 separate complaints. In two instances, the CAs were referred to the Discipline Tribunal. Three CAs received no sanction, with compassionate circumstances relating to health being taken into account.

The six disciplinary orders which were issued can be summarised as follows:

In addition to these orders, Members were ordered to pay a total of £17,400 in respect of financial penalties and investigation costs. The default outcome is for all orders to be publicised in CA Magazine and on icas.com. More details on the orders applied in 2016 can be found at: icas.com/regulation/disciplinary-notices
Why is CPD important?
ICAS promotes CPD as a mandatory part of good professional practice as well as a fundamental principle of professional ethics. For the public and employers CPD provides the reassurance that as individuals, and as a profession, Chartered Accountants are committed to upholding standards.

Output based CPD
The ICAS CPD model places the onus on each member to decide what their professional development needs are and how to address them through a variety of CPD activities. Members are asked to focus on the outcome of CPD activities, as opposed to the time spent on them. The ICAS Professional Development Process consists of four steps:
• to assess the needs of their professional role;
• assess their learning and development needs for that role;
• plan their CPD activities to meet those needs;
• record their CPD activities and review the learning outcomes achieved.

How we select the sample
Each year as well as asking Members to confirm their CPD compliance via their Annual Renewal, we require an annual sample of Members to submit their CPD records. After taking account of Members who were exempt, 579 Members were asked to submit their 2015 CPD records. The sample was selected on a risk basis taking into account the following:
• Directors, Non-Executive Directors and senior personnel in the FTSE 250, the top 50 AIM companies and large financial institutions;
• Members previously exempt who were no longer exempt from CPD;
• Members apparently retired but still conducting professional work;
• Company Directors or hold non-executive appointments;
• Charity trustees and independent examiners;
• Members whose CPD record required improvement last year; and
• Members in practice requested by our practice regulatory committees; as well as sampling the wider Membership.

2016 Outcomes
The results were positive: 97% of Members were considered compliant: 459 (79%) submitted compliant CPD records and 105 (18%) had their CPD compliance confirmed by their Accredited Employer.
15 Members (3%) were found to be eligible for the CPD ongoing exemption. There were no records submitted which were non-compliant.
As well as the regulatory aspects, we provided additional CPD support. We made a number of example CPD records available on our website to assist Members in completing their CPD record.

Accredited employer regime
The 2015 CPD sample is the final year in which Members can have their CPD compliance confirmed by their Accredited Employer. After very careful consideration ICAS decided to close the CPD Accredited Employer Scheme with effect from 31 December 2015. As ICAS seeks to build the leading global professional community, we want to reinforce the personal responsibility that goes hand in hand with being a CA and their commitment to CPD.