REGULATION
2017 OVERVIEW
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INTRODUCTION

We are pleased to present our annual report for 2017. As in previous years, this report aims to provide transparency over our work and includes:

• An overview of the visit outcomes of ICAS AML, Practice, Audit and Insolvency Monitoring during 2017;
• Complaints;
• CPD.

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.
### 2017 MONITORING RESULTS

**Reviews**


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

95% of firms were assessed as compliant or generally compliant. However, the number of fully compliant firms has reduced to 63% of firms reviewed (from 72% in 2016 and 70% in 2015). 37% of firms reviewed in 2017 are now subject to follow-up checks as we follow up on all firms assessed as generally-compliant or non-compliant.

The detailed findings below in the “Key Themes” section show that AML improvements are being made. Nevertheless, we are being more robust with our follow-up checks because:

- the previous regulations were in place since 2007 and we are required to follow up on repeat failings;
- if firms don’t catch up with pre-existing requirements quickly, they will be left behind with the new regulations; and
- we have a more robust regulatory landscape now, with a new oversight body.
Follow-Up Checks

As part of the developmental regulation approach, all generally-compliant and non-compliant firms receive follow-up checks to ensure that the required improvements are made, as follows:

- **Three-month follow-up checks**: all firms are scheduled for a follow-up check around three months of the Committee outcome letter following their monitoring visit.
- **Practice Support**: firms on follow-up are offered free support from our Practice Support team before they receive their follow-up check.
- **Regulatory sanctions**: firms failing to improve quickly may be faced with regulatory penalties or referrals to the Investigation Committee. But this is exceptional and is ‘last resort’ for serious cases. Our focus is to get firms to achieve compliance, rather than going straight for penalties or discipline.

Firms on AML follow-up checks

NB: The cleared visits are only those which have been approved as cleared by the Committee. There are many other follow up visits which are underway or awaiting Committee decision.

The majority of firms have quickly cleared their follow-up checks on the first three-month follow-up check.

In addition to the follow-up checks, the Authorisation Committee also 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.

At present, there are a small number of firms which are on further follow-up checks because their AML issues have not been cleared quickly. Whilst no regulatory penalties have yet been raised, given further follow-up checks to these firms are underway, the Committee will consider whether any further regulatory action is needed in due course.
In 2017 we conducted 44 Audit Monitoring visits (2016: 40, 2015: 38), covering our full range of firms. The table below shows the size of the firms we visited in 2017.

As can be seen, there was an increase in the number of smaller firms this year.

**Firms visited**

<table>
<thead>
<tr>
<th></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>2015</td>
<td>10</td>
<td>12</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>2016</td>
<td>10</td>
<td>19</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>2017</td>
<td>15</td>
<td>21</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

**Visit outcomes**

<table>
<thead>
<tr>
<th>Year</th>
<th>No follow up</th>
<th>Isolated issues</th>
<th>Systemic issues</th>
<th>Serious issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3 (7%)</td>
<td>14 (32%)</td>
<td>22 (50%)</td>
<td>5 (11%)</td>
</tr>
<tr>
<td>2016</td>
<td>2 (5.5%)</td>
<td>11 (31%)</td>
<td>21 (58%)</td>
<td>2 (5.5%)</td>
</tr>
</tbody>
</table>

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

- different firms are visited each year; and
- the regulatory landscape has been changing significantly.

All isolated, systemic issues and serious issues resulted in the Authorisation Committee requiring the firm to submit evidence of follow-up action. There has been a small downturn in compliance and the number of firms on follow up have increased, but this was anticipated due to the impact of UK GAAP changes.

It is, however, pleasing that 82% of firms receiving a full-scope visit during 2017 (89% in 2016) had no systemic/serious audit quality issues.
The main issues resulting in firms being considered, “isolated”, “systemic” or “serious”, and requiring follow-up, are explained in the next section “Key Themes”.

**Last visit result for all audit firms**

The graph below shows the last visit for all our current audit firms – these visits were all conducted within the last six-year period.

This indicates that 88% of all our current audit firms visited had no systemic/serious audit quality issues at their last monitoring visit.

**Audit file standards**

All Recognised Supervisory Bodies in the UK use a common method of assessing audit quality on individual files reviewed. In 2017, 80 audit files were reviewed in full (and 21 in overview) (2016 -113; 2015-96; 2014-110; 2013-112 files) across the visits conducted. The smaller number of files reviewed in 2017 reflects the smaller size of the firms visited this year.

There has been some reduction in file standards seen during 2017, primarily due to the regulatory landscape as explained in Key Themes. Appendix One provides more detailed analysis of our findings.
Follow-up

The firms requiring a greater level of action to enhance quality are those falling into the more “systemic” and “serious” groups (18% during 2017 (11% in 2016)).

Such firms would be required to provide a greater level of evidence to demonstrate improvement, and this ranges from submitting external hot file reviews, cold file reviews and CPD records, through to the more serious cases, where other regulatory interventions may be required.

Developmental regulation means that as well as the range of follow up measures above, ICAS provides a range of audit support (see our “ICAS Support” section) and includes our mandatory audit course and Audit News. Firms are also encouraged to engage with external compliance reviewers, such as our Practice Review Service, to make the necessary improvements.

The aim of this combination of follow-up action and support is to encourage firms to improve audit quality quickly, but ICAS can withdraw audit registration if progress cannot be made within the timescales set by the Committee.

Of the 58 firms subject to follow-up at their last visit, many have now successfully showed improvement and cleared the visit process.
### Reviews

In 2017 we conducted 182 Practice Monitoring reviews (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:

In addition, in excess of 60 follow-up checks were conducted during 2017.

#### Review outcomes

The results for the 182 reviews in 2017 compared to prior years were (by number of firms):

<table>
<thead>
<tr>
<th>Type of Review</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 Size of Practice</td>
<td>2017</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td>2017</td>
<td>2016</td>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>sole practitioners</td>
<td>2-3 partners</td>
<td>4+ partners</td>
<td></td>
</tr>
<tr>
<td>telephone call</td>
<td>desktop review</td>
<td>onsite visit</td>
<td></td>
</tr>
</tbody>
</table>

In addition, in excess of 60 follow-up checks were conducted during 2017.
The review outcomes, compared to previous years, expressed as %s:

For clarity, the diagram above shows 1 review in 2016 resulting in serious issues.

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

- different firms are reviewed each year; and
- the regulatory landscape has been changing significantly.

Despite the challenges being faced, 60% of firms still achieved satisfactory standards of compliance and required no follow-up. We expected a downturn in overall compliance during this year and think this is set to continue until the main regulatory changes bed in.

34% of firms required follow-up checks for only limited aspects of their practice. In the main, this related to procedural issues in relation to AML compliance, or financial statement disclosures.

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. 72 firms (40%), in total are required to have follow-up checks following their 2017 monitoring review.

You will see that there were a number of firms with significant or serious issues. Whilst the numbers remain very low, there were some key themes which are explained in the next section. 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.
Visits

In 2017 we conducted 31 ICAS Insolvency Monitoring visits (2016: 28), covering our full range of IPs. There were 25 routine visits and 6 follow up visits.

Visit outcomes

The results for the 25 routine full scope visits in 2017 were:

- 80% of IPs visited in 2017, 2016 and 2015 achieved satisfactory standards of compliance and required no follow up action.
- Most IPs continue to demonstrate good standards of practice. The most frequent issues identified in case reviews, and reported as findings, were:
  - a lack of appropriate risk-based anti-money laundering ("AML") procedures;
  - incidents of late compliance with statutory timescales;
  - inadvertent omissions in the provision of information; and
  - failure to fully complete checklists and procedures.

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

- different IPs are visited each year; and
- the regulatory landscape has been changing significantly.

It is encouraging to note that 80% or more of IPs visited in 2017, 2016 and 2015 achieved satisfactory standards of compliance and required no follow up action.
Detailed explanations of the most common findings are included in Key Themes and in Appendix One.

Where there are only a relatively small number of procedural findings, no follow up action is usually necessary. Follow up action arises where the extent of issues is more widespread or more significant in nature.

Most of the IPs with “some” or “systemic” issues requiring follow up, were due to widespread AML issues, as covered in more detail in the Key Themes section of this report.

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.

There were no such visit outcomes in 2017.

The Committee can take a range of follow up and regulatory actions. IPs may have conditions or restrictions placed upon their licence; they may be required to submit information to the Committee; or they may require to submit to a follow-up visit. Other, more serious, regulatory interventions include: referral to the Investigation Committee; regulatory penalties or licence withdrawal. The more serious regulatory interventions are exceptional.
While 2017 saw a decrease in numbers, recent history suggests there are no clear trends with complaints, meaning it is impossible to say what 2018 will bring.

As ever, the number of complaints is proportionately very low, with approximately one complaint for every 300 Members.
The 62 complaints we received in 2017 can be generally broken down as follows:

### Subject of complaint
- Member in practice: 41
- Non-practicing Member/Member in business: 15
- Firm: 5
- Affiliate: 1

### Basis of complaint
- Conduct: 48
- Competence: 14

### Complainers
- Client or ex-client: 16
- ICAS: 15
- Other: 13
- Creditor/debtor: 9
- Other accountant: 9

### Area of work
- General Practice: 22
- Insolvency: 12
- Business: 7
- Regulatory: 7
- Tax: 7
- Audit: 4
- Other: 3
THE COMPLAINTS WE DETERMINED

THE NUMBER OF INVESTIGATIONS CONCLUDED BY ICAS IN 2017

INVESTIGATIONS CONCLUDED 2013 - 2017

68

56

12


There are various reasons why complaints are not upheld – including lack of supporting evidence, and complainers who stop responding to correspondence. Complaints which are not upheld are reviewed by at least three members of the Investigation Committee, including Public Interest Members.

Number of disciplinary findings: 2014 - 2017
## DISCIPLINARY OUTCOMES IN 2017

### Penalties/cost awards: 2014 - 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Exclusion</th>
<th>Severe reprimand</th>
<th>Reprimand</th>
<th>Formal written warning</th>
<th>No sanction applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td>2</td>
<td>2</td>
<td></td>
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<tr>
<td>2016</td>
<td></td>
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<tr>
<td>2017</td>
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</table>

- While the significantly increased figure for fines/cost awards is largely due to one case, the figure would be higher than in most recent years, even if that case is discounted.
- No new referrals were made to the Discipline Tribunal – the first time this has happened for several years as Members were willing to accept sanctions offered by the Investigation Committee.
- There were no appeals against any sanctions imposed by the Investigation Committee.
- More details on these findings can be found at: icas.com/regulation/disciplinary-notices

### INVESTIGATION TIMESCALES

ICAS is committed to completing all investigations within a reasonable timescale. Our target timescales are as follows:

- Preliminary enquiries to be completed within 16 weeks
- Investigation Committee investigations to be completed within 12 months

THE AVERAGE TIME IT TOOK ICAS TO COMPLETE AN INVESTIGATION IN 2017

- **2014 AVERAGE:** 131 days
- **2015 AVERAGE:** 133 days
- **2016 AVERAGE:** 127 days

At the beginning of 2017, there was one investigation over 12 months’ old.
2017 CPD SAMPLE

Why is CPD important?
ICAS promotes CPD as a mandatory part of good professional practice as well as a functional principal 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 is output based and 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. The focus is on the outcome of the CPD activities, as opposed to the time spent on them and should be proportionate and relevant to each members’ role.

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; and
- Record their CPD activities and review the learning outcomes achieved.

How we select the sample
Each year we 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, 549 Members were asked to submit their 2016 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 retired but still conducting some professional work;
- Company Directors or hold non-executive appointments;
- Charity trustees and independent examiners;
- Members whose COD record required improvement last year;
- Members in practice requested by our regulatory committees; and
- A sample of the wider Membership.

2017 outcomes
The results were positive. 513 Members (93%) were considered compliant. 36 Members (7%) 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 support. We made a number of example CPD records available on our website to assist Members in completing their CPD record.