FIRMS ANNUAL RETURN

GUIDANCE AND DEFINITIONS HELP SHEET

This help sheet has been compiled in order to assist you in completing your Firm’s Annual Return.

The boxed areas on the Firms Annual Return are guidance and should be read before completing your Return.

Please note that at various points within the Firms Annual Return there are requests for statements. The additional information requested may be written on the face of the Firms Annual Return if this is easier than attaching a separate sheet of paper. Please check that all statements are enclosed before submitting the Firms Annual Return.

Definitions of text in bold and italics are included in this helpsheet. A searchable pdf version of this helpsheet can be found at https://www.icas.com/regulation/firms-annual-return

This helpsheet is split into three sections as follows:-

Section 1 - relevant to all firms
Section 2 - relevant to Audit Registered firms
Section 3 - relevant to firms with DPB licensed firms
Section 1 – ALL FIRMS

Accounting Reference Date
This is the firm’s most recent accounting year end. If you are a new firm and have not reached your year end, please insert estimated figures for the first 12 months and indicate if this is the case by a note on the Return. It will not be possible for us to input your Return without an accounting reference date.

Administration Staff
The total of all employees (including subcontract staff) not directly engaged on client work.

Anti-Money Laundering Legislation and Regulations

Audit Client
This is any client on which a Registered Auditor gives an audit report as defined in Schedule 1 to the Audit Regulations and Guidance. Please do not include entities taking advantage of any Audit Exemption.

Authorised Training Office
This is where a firm is authorised by ICAS to train CA students.

Clients’ Money
Money of any currency (whether in the form of cash, cheque, draft or electronic transfer) which a Firm holds or receives for or from a client, including money held by an Insolvency Practitioner licensed by ICAS, money held by a Firm as stakeholder, and which is not immediately due and payable on demand to the Firm for its own account.

Clients’ Money Regulations
The Clients’ Money Regulations can be found at https://www.icas.com/__data/assets/pdf_file/0012/2064/ICAS-Client-Money-Regulations.pdf

Designated Professional Body (DPB)
These are arrangements whereby a firm obtains a Designated Professional Body (DPB) licence to conduct a specific range of investment business activities in accordance with the DPB Handbook. If your firm wishes to become DPB licensed you should contact Emma Reid, Firms Authorisations on 0131 347 0282 or email ereid@icas.org.uk

Gross Practice Income
This is your total practice income excluding VAT and recharged out of pocket expenses, but including all commission received regardless of whether commission is retained in the practice.

ICAS Code of Ethics
The ICAS Code of Ethics can be found at https://www.icas.com/ethics/icas-code-of-ethics

ICAS Group Consumer Credit Licence
Please refer to the Consumer Credit section on the ICAS website for full information at: https://www.icas.com/regulation/consumer-credit
IFA

An Independent Financial Adviser. This is a financial adviser who is qualified to provide independent advice and is authorised by the Financial Services Authority (FSA) and is not tied to any particular insurance/investment companies.

Income Types

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>This is all income from audit work, statutory or otherwise.</td>
</tr>
<tr>
<td>Accounting</td>
<td>This is income from all accounting services including preparation of annual accounts for incorporated and unincorporated businesses, charities, clubs, trusts and pension schemes, provision of in-house accounting services and management accounting services.</td>
</tr>
<tr>
<td>Data Processing / Bureau Work</td>
<td>This is income from all processing work including, payroll, book-keeping and preparation of VAT returns.</td>
</tr>
<tr>
<td>Tax Compliance</td>
<td>This is income from preparation of returns for submission to HMRC including income tax returns, corporation tax returns, partnership tax returns and trust returns.</td>
</tr>
<tr>
<td>Tax Consultancy</td>
<td>This is income from provision of tax advisory work including IHT planning, corporate finance activities, investigations and tax planning services.</td>
</tr>
<tr>
<td>Corporate and other Financial Advice</td>
<td>This is income from all forms of corporate advice and planning including transaction planning, forecasts and projections, valuations, acquisitions and disposals of businesses, business plans, due diligence and raising capital.</td>
</tr>
<tr>
<td>Insolvency</td>
<td>This is all income from the provision of insolvency services.</td>
</tr>
<tr>
<td>Directorships</td>
<td>This is income received from the provision of director services both exec and non exec roles billed through your firm.</td>
</tr>
<tr>
<td>Commission/ Investment Business</td>
<td>Commission/Investment Business; this is all commission income received whether or not it is rebated to the client.</td>
</tr>
<tr>
<td>Others</td>
<td>Please include any other form of income outwith the categories above.</td>
</tr>
</tbody>
</table>

Independence

Firms should ensure, when providing any professional service, that there are no threats to compliance with the fundamental principle of objectivity, resulting from having interests in, or relationships with, a client or directors, officers or employees. The requirements are set out in the ICAS Code of Ethics.

Insolvency Proceedings

Formal or informal insolvency proceedings include all those in any jurisdiction, including but not restricted to trust deeds, sequestration, bankruptcy, individual voluntary arrangements, debt arrangement schemes, debt relief orders, partnership voluntary arrangements, company voluntary arrangements, liquidations, administrations and receiverships.

Investment Business

Means any financial services, as defined in the Financial Services and Markets Act 2000.

Largest Annual Fee

This is the total fee income for your largest client or related groups of client.
Legal form of firm
While not a definitive list, the most common legal forms include the following: sole practice, partnership, limited liability partnership (“LLP”), limited company, public company, trust.

Market day office
Historically, this refers to offices that are only open on market days (e.g. in rural areas). This term is also now used for offices that are used infrequently. If your firm has an office in a particular location that is only used for meeting clients, this would be considered a market day office.

Network
Means the larger structure aimed at cooperation which a firm belongs to and which is:

- controlled by the firm
- clearly aimed at profit or cost sharing
- under common ownership, control or management
- affiliated or associated with the firm through common quality control policies and procedures, a common business strategy, the use of a common name or through the sharing of significant common professional resources.

Regulated Non-Member/Affiliate
Each principal in an audit registered firm must either be a member of one of the Institutes or ACCA, a Registered Auditor in their own right, an EEA auditor or EEA audit firm, or become a Regulated Non Member (called affiliate in the Audit Regulations).

Each principal in a DPB firm, must either be a member of ICAS or a member of another DPB body (the other 2 Institutes or ACCA), a DPB licensed firm in its own right, or become a Regulated Non Member (called affiliate in the DPB handbook).

Signing powers over client bank accounts
This is where a principal or employee of the firm is a signatory on a bank account in the client’s own name. (This excludes general or designated clients’ monies bank accounts which are in the name of the firm on behalf of the clients/specific client). This includes where a principal/employee in the firm has the authority to authorise BACS payments e.g. for salaries/wages or to pay invoices for non resident clients.

Subcontractors/Consultants
Self-employed persons, firms or agencies who provide services to the firm under a contract for services.

Trading Names
If your firm operates under more than one name you should register that trading name with ICAS and ensure that no audit reports are signed in that trading name until registration is confirmed. Please note that limited company names cannot be used as trading names.
Section 2 – AUDIT FIRMS

Accounts Disclosure Checklist
This is a checklist, either manual or computerised, which is used to ensure that the final accounts comply with the relevant legislation and financial reporting requirements.

Affiliate
An affiliate of an audit firm means any undertaking, regardless of its legal form, which is connected to an audit firm by means of a common ownership, control or management.

Alternative Investment Market (AIM) and PLUS/ISDX
AIM is the Alternative Investment Market which was established in 1995 and is run by the London Stock Exchange with the aim of providing an international investment market for small, growing companies. Further information can be found at: (http://www.londonstockexchange.com/companies-and-advisors/aim/aim/aim.htm).

Plus was a London based stock exchange providing cash trading and listing, derivatives and technology services. In 2012, it was rebranded as Icap Securities and Derivatives Exchange (ISDX). Further information can be found at: http://www.isdx.com/

APB Ethical Standards
The link for the individual standards (ES1, ES2, ES3, ES4, and ES5) can be found at https://frc.org.uk/Our-Work/Conduct/Audit-Quality-Review.aspx

Appropriate Qualification
Members of a Recognised Professional Body (RPB), being the 3 Institutes and ACCA, on both 31 December 1989 and 30 September 1991 are ‘grandfathered in’ as having appropriate qualifications. Since that date, RPB (including ICAS) members are not automatically awarded the audit qualification on admission to membership, and must record their UK audit experience in their Achievement Log and have at least 210 days of UK audit experience (with 105 of these days being UK company audit) and must work for a firm with Registered Auditor status. Any queries on approved qualification status can be referred to Ann Lamb, Director of Policy, at ICAS on 0131 347 0160. ONLY when a member has been awarded the audit qualification do they count towards the control percentage as stipulated in the Audit Regulations. Having an appropriate qualification does not permit the holder to sign audit as this requires Responsible Individual status.

Audit Cessations/Ceasing to hold a non major audit appointment
The Companies Act 2006 and other regulations made under it require auditors, in specified circumstances, to inform either ICAS or the Professional Oversight Board (POB) if an audit appointment ceases, as follows:

- Major audits: the firm must inform POB directly if it ceases to act for any major client (as defined at https://www.frc.org.uk/Our-Work/Conduct/Audit-Quality-Review.aspx) – these include listed companies and other very large UK entities.
- Other audits: the firm must inform ICAS (via this return) if any audit appointments of other non major clients have ceased before the normal time that the auditor’s term of office would have ended. Please provide the information as directed in the return.

Audit Compliance Principal
A Principal who is responsible for ensuring that the Registered Auditor has complied and is likely to continue to comply with the Audit Regulations.
Audit Compliance Review (ACR)
The annual review of a firm’s work and methods in order to judge the firm’s compliance with the Audit Regulations. The annual review is required by Audit Regulation 3.20 and comprises two parts:

- A whole firm review: a review of the firm’s “firm wide” policies and procedures e.g. PII, fit and proper, independence, CPD etc.
- Cold file reviews: a review of a sample of completed engagements after an audit report has been signed to check that the audit work is in accordance with Auditing Standards (ISAs) and the firm’s procedures.

Please note that the current requirements of ISQC1 (Revised) require sole practitioners to have a review externally at least every three years (unless there are suitably qualified audit staff who can do this) — please refer to the Guidance section to Audit Regulation 3.20.

Audit Exemption

Audit Manual/Documentation
A system which can be purchased. This could consist of an audit manual and audit programmes and may be regularly updated by the provider.

Audit Qualified Staff
These are holders of an appropriate qualification and are usually members of one of the three Chartered Institutes (ICAS, ICAEW, CAI) the Association of Chartered Certified Accountants (ACCA), or holders of an approved overseas qualification which is recognised in the UK.

Audit Regulations and Guidance
The Audit Regulations issued by the ICAS, ICAEW and CAI “Audit Regulations and Guidance 2008” as amended from time to time. The Audit Regulations and Guidance can be found on the ICAS website at:-
https://www.icas.com/regulation/audit-registration

Audit Staff
This should be the total of audit staff excluding principals but including subcontractors and consultants. Whole numbers please instead of decimals. You should add or delete offices, as is necessary.

Audits for the clients of other firms
This applies where a firm of accountants arranges for your firm to carry out an audit on one of its clients. The statement requested should state whether or not your firm:

- issues an engagement letter to the audit client;
- maintains its own audit files; and
- bills the client directly (i.e. not through the referring firm).

CPD/Continuing Professional Development
ICAS members and members of the other recognised professional bodies, have an obligation to maintain professional competence. The ICAS CPD requirements can be found at
https://www.icas.com/regulation/icas-cpd-requirements
Fit and Proper
For a registered audit firm to be fit and proper all principals and employees must also be fit and proper. Principals and employees should be of good reputation and character and have no significant criminal convictions or civil liabilities, and there should be no concerns over their financial integrity. Audit Firms require to evidence their annual consideration of the firm’s, principals’ and staffs’ fit and proper status. The full requirements can be found in Guidance Chapter 1 of the Audit Regulations.

Independence
A Registered Auditor must be independent of the audit client. The firm must consider its independence before it accepts appointment or reappointment as auditor and during the conduct of the audit work. The audit ethics requirements are set out in the APB Ethical Standards (ESs) which can be accessed at https://frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Ethical-standards-for-auditors.aspx.

International Education Standard 8/IES8
This sets out the core competencies and capabilities that audit professionals should have and CPD and development programmes should be aimed at developing and maintaining these. Further information can be found at: http://www.ifac.org/publications-resources?publication-type=21&source=31&issues=&language=&x=26&y=10.

ICAS has issued significant guidance on this issue which can be found on the ICAS website at https://www.icas.com/regulation/regulatory-guidance. Members will require to log in to view this content.

Irish Stock Exchange
The Irish Stock Exchange operated three markets: the Main Securities Market (the principal market for Irish and overseas companies), the Enterprise Securities Market (an equity market designed for growth companies), and the Global Exchange Market (a specialist debt market for professional investors).

ISAs
These are the International Standards on Auditing that must be complied with when undertaking an audit. All firms must now comply with the Clarified ISAs. The Clarified ISAs can be found at: https://frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditing-standards.aspx

ISQC1
International Standard on Quality Control (UK and Ireland) 1 sets out the quality control policies and procedures that registered audit firms require to comply with, this includes all “whole firm” procedures such as CPD, Performance Appraisals, Fit and Proper declarations etc. A copy of ISQC1 can be accessed at: https://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditing-standards.aspx

Listed Company/Companies
Any company registered in the UK or in the Republic of Ireland and is listed on a Recognised Investment Exchange. This includes companies listed on the London Stock Exchange, the Alternative Investment Market (AIM), the PLUS market and the Irish Stock Exchange.

Off Shore / Non-resident Companies
Companies incorporated in the UK or Republic of Ireland requiring an audit, but where the companies carry on their principal trade, and are controlled from, outside their country of incorporation. This includes companies which are run by “nominee” or “fiduciary” directors.
PCAOB
The Public Company Accounting Oversight Board is a private-sector, non-profit corporation created by the Sarbanes–Oxley Act, a 2002 United States federal law, to oversee the auditors of US public companies. Its stated purpose is to ‘protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports’. The PCAOB website can be accessed at http://pcaobus.org/Pages/default.aspx

Registered Auditor/Statutory Auditor
A firm entered on the register as eligible for appointment as a statutory auditor under section 1239 of the 2006 Act or section 198 of the RI 1990 Act.

Responsible Individual (RI) /Senior Statutory Auditor
Is a principal or employee responsible for audit work and responsible for signing audit reports and is designated as such under Audit Regulation 4.01.

This individual must have been pre-approved by the registering body before he/she can start acting as an RI and signing audit reports. All RIs must hold an appropriate qualification. The Companies Act 2006 Act uses the term “senior statutory auditor” this is the same thing. More information about becoming an RI is included at https://www.icas.com/regulation/audit-registration

Shareholders Of A Corporate Practice
The status of the shareholder should be annotated in as one of the following:

- Holder of a UK appropriate (audit) qualification
- Holder of an EEA appropriate (audit) qualification
- UK registered audit firm
- EEA statutory audit firm
- Other

Specialist Audits
Organisations which are individually listed as requiring an “audit” due to specific UK or Republic of Ireland legislation (albeit that legislation may provide limits or thresholds which exempt some entities from audit) – these entities are individually listed in Schedule 1 of the Audit Regulations and Guidance. We refer to these as “regulated or specialist audits” and these are defined below:-

Banks and Building Societies
In the UK, banks and building societies are entities which take deposits, and are authorised firms under the Financial Service and Markets Act 2000. The definition covers entities which are incorporated in the UK and authorised by the FSA; societies incorporated under the Building Societies Act 1986 and other UK branches of entities incorporated inside or outside the EEA who are authorised by the FSA to carry out regulated activities in the UK.

In the Republic of Ireland, banks are credit institutions as defined in the EU Capital Requirements Directive as being entities whose business it is to receive deposits from the public and to grant credits for its own account.

Credit Unions
Credit unions are mutual savings and loan organisations which are not-for-profit and which operate solely for the benefit of their members. In the UK, credit unions are registered under relevant sections of the Industrial and Provident Societies Acts 1965-2002. In Scotland, England and Wales, credit unions are regulated by the FSA who require an auditor to be appointed.
In Northern Ireland they are regulated by the Department of Enterprise, Trade and Investment. In the Republic of Ireland, a credit union is an industrial and provident society registered by virtue of the Credit Union Act 1997.

**Insurance Companies (but not insurance brokers)**

UK insurance companies are authorised by the FSA and effect or carry out contracts of insurance (as opposed to brokers who only sell insurance contracts). They must hold permission under Part IV of Financial Services and Markets Act 2000.

In Ireland, authorised insurers are ones that hold an authorisation granted by the Minister under the Regulations of 1976, the Regulations of 1984, the Non-Life Regulations of 1994, or the Life Regulations of 1994 to carry on a specific class of business.

**Entities Authorised for Investment Business (includes companies audited under companies legislation)**

These entities are ones which are authorised by the FSA to carry out designated *investment business* and therefore must submit audited accounts to the FSA. The definition of such firms is wide-ranging and can include, but is not limited to, investment managers, stockbrokers, securities firms, personal investment firms, corporate finance firms providing advice, independent financial advisers and unit trust managers. Please also include companies audited under companies legislation.

**Charities (includes charities audited under Companies legislation)**

All incorporated charities must follow the requirements of the Companies Act 2006.

In Scotland, the Charities Accounts (Scotland) Regulations 2006 provide the limits for when unincorporated charities require an audit.

In England and Wales, the Charities Act 2006 governs audit, and the Regulator, the Charity Commission, provides guidance notes on when audit is required.

In Northern Ireland, the Charity Commission is the new regulator, and the Charities Act (Northern Ireland) 2008 governs which charities require an audit.

**Friendly Societies**

In the UK, the friendly societies are registered under the Friendly Societies Act 1974 and are regulated by the FSA which requires a report to the members on whether the accounts show a true and fair view.

In the Republic of Ireland, the Friendly Societies Act requires an annual audit.

**Industrial and Provident Societies**

In the UK, industrial and provident societies are registered by the Mutual Societies Registration section of the Financial Services Authority (they were previously registered by the Registrar of Friendly Societies) in England, Wales and Scotland, and by the Registry of Companies, Credit Unions and Industrial and Provident Societies in Northern Ireland. This registration function is separate from the FSA’s role as regulator under FSMA, however the FSA requires appointment of an auditor.

In the Republic of Ireland, the Industrial and Provident Societies Act 1893-1978 require an annual audit.
**Limited Liability Partnerships**
An LLP is a separate legal entity and, while the LLP itself will be liable for the full extent of its assets, the liability of the members will be limited. In the UK the key legislation is the Limited Liability Partnerships Act 2000 which allows for LLPs to follow the Companies Act requirements on determining whether an audit is needed.

**Pension Schemes**
In the UK, the Pensions Acts and the Occupational Pension Schemes (Administration and Audited Accounts) (Amendment) Regulations 2005 require annual audited accounts.

In the Republic of Ireland, the Pensions Act 1990 and associated Regulations require true and fair view accounts.

**Open ended investment companies**
This is a type of company in the UK which is structured to invest in other companies. Such an entity must be authorised by the FSA under the Financial Services and Markets Act 2000, and an auditor must be appointed.

**Unit Trusts**
This is a form of collective investment constituted under a trust deed. Such an entity must be authorised by the FSA under the Financial Services and Markets Act 2000, and an auditor must be appointed.

**Lloyds Syndicates**
Members of Lloyds are insurance companies who effect or carry out contracts of insurance under section 316 of the Financial Services and Markets Act 2000. Lloyds corporate members are not regulated by the FSA but are subject to Lloyds requirements.

**Mutual Life Offices**
These are insurance providers who are authorised by the FSA to effect or carry out contracts of insurance, however they are not incorporated and therefore have members rather than shareholders. As they are regulated by the FSA under the Financial Services and Markets Act 2000, an auditor must be appointed.

**Partnerships (audit only)**
Any audit required by the Partnerships and Unlimited Companies (Accounts) Regulations 1993.

**Other audits**
This refers to any other audits not listed in the Listed Companies or Organisations not included above sections. This will usually be UK or Republic of Ireland incorporated companies, not included already in either of the sections above.

**Substantial Role**
The 20% requirements listed refer to the requirements of the US Public Company Accounting Oversight Board (PCAOB). All firms who play a substantial role in the audit of a US public company require to be directly registered with the PCAOB. Further information can be found at [http://pcaobus.org/Pages/default.aspx](http://pcaobus.org/Pages/default.aspx). The scope of the PCAOB is complicated and firms are advised to refer to the PCAOB website if in any doubt and contact the ICAS Technical team by e-mail at accountingandauditing@icas.org.uk.

**US Public Company/Companies**
A public company or publicly traded company is a limited liability company that offers its securities (stock/shares, bonds/loans, etc.) for sale to the general public, typically through a US stock exchange, or through US market makers operating in over the counter markets.
Section 3 – DPB FIRMS

Annual Compliance Review
The annual review of a firm’s work and methods in order to judge the firm’s compliance with the DPB Handbook. Full guidance is found in Part 4, section 4.04 of the DPB Handbook.

Appointed Representative
Is a person or firm appointed in accordance with Section 39 of the Financial Services and Markets Act 2000. This is where an authorised firm (known as the Principal) allows an appointed representative to carry on certain regulated activities under the Principal’s FSA authorisation. There are various conditions that require to be met and the appointed representative must be fit and proper and must be registered with the FSA under the Principal’s authorisation.

Corporate Finance
Corporate finance activities only fall within the scope of DPB, if investment instruments are involved, such as shares or debentures. Corporate finance which does not involve an investment instrument will not require a DPB licence (e.g. corporate finance in relation to banking facilities)

Certain corporate finance activities are beyond the scope of a DPB licence and require a full FSA authorisation. Full guidance is found in Part 3, Schedule 5 of the DPB Handbook.

DPB Handbook
All DPB licensed firms must comply with ICAS’s DPB Handbook, which can be found at: https://www.icas.com/regulation/designated-professional-body

Execution only
This is where a financial services transaction is effected on the basis of a client’s instructions and no advice is given and no consideration is made as to whether the transaction was suitable for the client.

Exempt Regulated Activities
These are the regulated activities that firms require a DPB licence (if they are not FSA authorised) to conduct. Guidance on Exempt Regulated Activities is found in Part 3 of the DPB Handbook.

Financial Promotions
Is a communication that is an invitation or an inducement to engage in investment activity. They can be communicated through a number of means, such as:

• product brochures;
• general advertising in magazines, newspapers, radio, TV and websites;
• mailshots;
• written correspondence; and
• sales aids.

Incidental
Regulation 3.08 in the DPB Handbook requires that all exempt regulated activities conducted must be in a manner which is incidental to the provision of other professional services. Schedule 3 contains guidance on this.

Insurance Mediation Activities
Conducting the following activities in relation to insurance contracts:

• Dealing in investments as agent;
• Arranging
• Making arrangements with a view to transactions;
• Assisting in the administration and performance of an insurance contract;
• Advising;
• Agreeing to carry on a regulated activity in relation to the above.
**Permitted Third Party (PTP)**
A third party who is;

- a person authorised by the FSA; or
- an *appointed representative* of an FSA firm;
- a person lawfully carrying on a regulated activity in another EEA State.

**Regulated Investment Business Activities**
Regulated investment business activities in the UK (such as recommending the purchase of certain shares, pensions advice) can only be undertaken by FSA authorised firms. *DPB* licensed firms can conduct *exempt regulated activities* that are *incidental* to, and complementary, to other services provided.

Any queries or re-prints relating to the Firm’s Annual Return please send an email with the request to [FAR@icas.org.uk](mailto:FAR@icas.org.uk) or post to:-

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