

Draft 15.01.04

Practice Assurance Standards and Guidance

(Draft at 15 January 2004)

Introduction

These standards are based on the Fundamental Principles in the Institute's Guide to Professional Ethics <<www>>.

All members who hold a Practising Certificate come within the Practice Assurance scheme and should adhere to these standards.

The standards themselves are set out in bold type and are obligatory. They are followed by guidance, which is intended to help firms to interpret and comply with the standards, and by examples of best and acceptable practice. The examples of best practice develop and extend the examples of acceptable practice.

The examples shown are not exhaustive. Firms are free to follow whatever procedures they wish in achieving the standards and are not required to follow the examples if they are not relevant either to their practice or client. However, they must be prepared to demonstrate that their procedures do in fact secure achievement of the standards. Throughout the acceptable and best practice examples there are references to manuals/procedures which could be either written or electronic; content and scope being more important than the way in which they are recorded.

Where a firm subcontracts work to others who are, themselves, subject to a scheme of quality review through their professional body, the firm may accept the quality requirements of the professional body concerned but should, nevertheless, ensure that its dealings with the sub-contractor are in accordance with these standards.

Further assistance in meeting the standards is provided in the form of helpsheets, available from the Practice Assurance website <<www>>, or in hard copy by telephoning <<Tel. No.>>. Relevant helpsheets are listed at the end of each standard. Members may also find it useful to contact the Practice Society on 01908 248339 or to visit the Practice Society area of the website: www.icaew.co.uk/practicesociety.

Advice on interpreting the Guide to Professional Ethics is available from the Institute's Ethics Advisory Service, <<Tel. No.>>.

Standard 1: Laws, regulations and professional standards

A firm should comply with laws, regulations and standards that are relevant to the service provided, including the bye-laws, regulations and ethical guidance of the Institute.

Guidance

Most assignments are subject to some form of statutory requirement or guidance produced by a professional body, including guidance from the Institute which is set out in the Members’ Handbook <<www>>. A firm should have access to appropriate reference sources which enable it to be aware of any such requirements.

Examples

Evidence of satisfactory compliance with Standard 1 will vary from firm to firm and will depend principally on the nature of the work undertaken by the firm. In other words, the evidence provided by a sole practitioner to demonstrate compliance with Standard 1 may be very different from the evidence provided by a larger firm. Examples of best and acceptable practice are given below:

Acceptable practice	Best practice
<ul style="list-style-type: none"> • Copies of relevant legislation / regulations / bye-laws/ethical guidance available. • A copy of the Institute's current guidance such as the Members Handbook is available and applied. 	<ul style="list-style-type: none"> • Copies of relevant legislation/regulations/bye-laws/ethical guidance available with subscription service to ensure always up to date. • Checklist of legislation for each assignment or client type or industry available. • Relevant legislation available to all staff via computer systems. • Each file has list of legislation and other regulations specifically applicable to client. • A copy of the Institute's current guidance such as the Members Handbook is available and applied. • Helpsheets available within the firm, e.g helpsheets on Money Laundering, Accounts and Auditing Standards

Helpsheets

The following helpsheets relevant to Standard 1 will be available:

Helpsheets to include information on relevant legislation (there is an index in existence) and an index of relevant sections of the Members’ Handbook.

Legislation “list” with links to relevant websites, e.g. Companies Act/Taxes Act/Data Protection Act/Health and Safety/Money Laundering/Audit and DPB Regulations/Accounts and Audit Standards/Overseas legislation.

Standard 2: Client acceptance and disengagement

A firm should agree to act for a client only if, in so doing, it does not contravene the professional, regulatory or ethical requirements of the Institute.

Guidance

When accepting a client, and throughout the term of the engagement, a firm should be able to demonstrate that:

- there is no threat to the firm's integrity or objectivity that cannot be managed by appropriate safeguards;
- the firm will have access to adequate resources and expertise available to provide the services required;
- the firm has made adequate enquiries to ensure that there are no other reasons to prevent it from providing the services, including those related to the law and regulations on money laundering; and
- the terms of engagement are clear and unequivocal.

Integrity, objectivity and independence

Integrity and objectivity are essential in the exercise of professional judgement. Threats to integrity and objectivity arise most frequently when there is a conflict of interest between a firm and its client or where different clients have conflicting interests.

The main considerations which should be taken into account are contained in the ethical guidance on Integrity, Objectivity and Independence (Statement 1.201) <<www>> and on Conflicts of Interest and Confidential Information (Statement 1.205) <<www>> in the Guide to Professional Ethics.

Situations that may threaten a firm's integrity or objectivity include, but are not limited to:

- relative size of individual fee;
- a mutual or conflicting business interest between the firm (or persons with close connections with the firm) and a client;
- loans to or from clients;
- receipt of goods, services or hospitality from a client;
- beneficial interest in shares or other investments in clients.

The ethical guidance includes examples of safeguards that are available to remove or reduce such threats. For example, where a potential conflict of interest between the firm and the client is identified, it may be sufficient to disclose, in full, the circumstances to the client and to obtain his/her informed consent. Firms should refer to the ethical guidance for a more detailed discussion of these and other related issues.

Resources and expertise

Resources and expertise should be adequate for the services to be provided. A firm should not take on a new client unless it has access to appropriate staff to deal with the increase in work. Firms should

guard against creating unmanageable pressures for themselves that could adversely affect their services to clients.

It is important that a firm only undertakes work that it is competent to perform. The staff dealing with the assignment should have the necessary technical knowledge. Particular care should be taken to ensure that the relevant expertise is available, within the firm or from external sources, to deal with specialist areas.

All technical staff should receive appropriate ongoing training. In particular, all professionally qualified staff and principals should comply with CPD requirements of their professional body. For members of the Institute, these can be found at <<www>>. All staff should have access to appropriate technical material and resources.

Other reasons that might prevent client acceptance

Enquiries should be made to ensure that there are no other reasons to prevent the firm from entering into an engagement.

These enquiries should include communicating with the prospective client's existing accountant to establish if there are any considerations that might affect the firm's decision whether to accept appointment. Suggestions on how to carry out such professional enquiries are included in the guidance on Changes in a Professional Appointment (Statement 1.206) <<www>> in the Guide to Professional Ethics.

Firms should carry out their obligation to respond promptly to such enquiries from other firms and, if there is a subsequent transfer of client, co-operate with the new accountant.

Firms should be aware of the laws and regulations in the UK relating to money laundering. Failure to observe the Money Laundering Regulations 2003 can put members and other staff at risk of criminal prosecution. The Money Laundering links on the Institute website provide up to date advice for firms on meeting their obligations under Part 7 of the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003.

Terms of engagement

Many disputes with clients result from a misunderstanding or misinterpretation of the nature or scope of an accountant's terms of engagement. A clear statement of the terms and conditions of engagement before starting work can help to avoid misunderstandings over the scope of the work to be completed. This could be particularly important for Professional Indemnity Insurance purposes and could help to avoid disputes or enable them to be resolved more easily.

If the scope or nature of the services change at any time, the firm and client should agree revised terms to ensure that the client understands the revised terms.

Terms of disengagement

Complaints are often made to the Institute when a firm ceases to act and the client misunderstands the extent of the work the firm has agreed to complete. To avoid this, a firm is advised to agree terms of disengagement at the appropriate time, identifying the work to be completed and the terms on which this will be done.

Examples

Evidence of satisfactory compliance with Standard 2 will vary from firm to firm and will depend on the size of the firm and the nature of its clients.

Examples of best and acceptable practice are given below:

Acceptable practice	Best practice
<i>Integrity and objectivity and independence</i>	
<ul style="list-style-type: none"> Independence and objectivity issues considered and, where identified, file note of relevant issues and safeguards put in place. 	<ul style="list-style-type: none"> When considering a new client, formal enquiries made of partners and staff asking if they have any independence issues. Annual independence/fit and proper declarations completed by all partners and all staff with requirement to inform of changed circumstances immediately. Independence and objectivity issues have been considered for each assignment and noted on file. Where issues identified, file note of relevant issues and safeguards put in place.
<i>Resources and expertise</i>	
<ul style="list-style-type: none"> Where the firm identifies that the nature of the work is outside its usual activities, file note confirming that the skills needed will be available on the assignment. 	<ul style="list-style-type: none"> File note identifying specific skills needed for each new client and which staff to be used to meet those needs. Specific skills needed for each client re-assessed annually.
<i>Professional enquiries prior to acceptance</i>	
<ul style="list-style-type: none"> Money laundering procedures for each new client as required by the Money Laundering Regulations 2003. Guidance in Statement 1.206 "changes in a professional appointment" followed. 	<ul style="list-style-type: none"> Money laundering procedures as required by the Money Laundering Regulations 2003, documented and applied to each new and where appropriate existing client regardless of services provided.
<i>Terms of engagement</i>	
<ul style="list-style-type: none"> If client does not return signed engagement letter, client advised in writing, stating that approval of the terms of the engagement will be assumed, unless the firm hears otherwise, within a specified period of time. File note of agreed subsequent changes. Know your client form completed and on file for each client. 	<ul style="list-style-type: none"> Signed engagement letter retained on file. Standard brochure issued to clients stating complaint procedure and fee charging structure. Record on file of matters discussed with each new client. Other than in a sole practice, second partner approval for accepting certain categories of new client.

	<ul style="list-style-type: none"> • Regular review to ensure engagement letter remains up to date and revised letter issued if any changes.
<i>Terms of disengagement</i>	
<ul style="list-style-type: none"> • File note of agreed disengagement terms retained. 	<ul style="list-style-type: none"> • Disengagement letter retained on file, as signed by client. • Copy of disengagement checklist on client's file.

Helpsheets

The following helpsheets relevant to Standard 2 will be available:

Helpsheets to include guidance and checklists which provide points for consideration for firms taking on a new client or entering into new arrangements with a client, covering each of the examples of best and acceptable practice.

Additional helpsheets on:

- disengagement – include rules on disengagement for tax clients, to comply with Inland Revenue requirements;
- use of subcontractors – include explanation on how subcontractors are to be treated, e.g. fall into the same category as staff doing the same work, professionally qualified, technical, other;
- “unusual” clients/areas where firms may need to obtain outside assistance, e.g. clients falling outside of the regulated areas, but whose professional bodies have their own regulations, such as estate agents, Royal Institute of Chartered Surveyors
- overseas clients;
- suggested “new client pack” including forms and information likely to be needed at first meeting with client;
- example of independence/fit and proper forms, plus guidance.

Standard 3: Competence

A firm should ensure that all principals, staff and subcontractors are competent to carry out their work.

Guidance

To ensure that principals and staff (including subcontractors) are competent, firms will need to have appropriate arrangements in place for:

- recruitment;
- development and training;
- access to up to date technical and non-technical reference material and information sources;
- the provision of consultation where necessary;
- allocation of staff to assignments consistent with their capabilities; and
- appropriate supervision and review of work.

Recruitment

The recruitment process should include an assessment of the 'fit and proper' status of applicants and their competence and relevant experience, to carry out the work that will be assigned to them. The firm is advised to take up references, including those of previous employers. It is also advisable to see original rather than photocopied certificates providing evidence of qualifications.

Development and Training

Generally:

The level of skills and knowledge required of an individual depend on the work to be carried out and the level of responsibility.

The firm should ensure that the development needs of all principals and members of staff are assessed on a regular basis both formally through, for example, manager reviews and appraisals and informally through peer discussions. The firm should ensure that staff keep up to date and undertake appropriate development and training to enable them to carry out their work competently. It is recommended that all staff have a formal performance appraisal at least once a year that includes a discussion of their development and training needs.

Continuing Professional Development

All professional staff should comply with the Continuing Professional Development requirements of their own professional bodies.

Technical reference material

The firm should ensure that staff have access to the relevant technical and other information that they need.

Consultation

The firm should encourage staff and subcontractors to consult with others in the firm on technical, ethical and other issues whenever appropriate. It may be necessary to seek external advice where the appropriate expertise is not available within the firm. Sole practitioners may find it helpful to set up arrangements with another firm or consultancy organisation in order to seek advice and information, as well as making full use of the Institute's own helplines and library and information service.

Examples

Evidence of satisfactory compliance with Standard 3 will vary from firm to firm and will depend on the size and structure of the firm. Examples of best and acceptable practice are given below:

Acceptable practice	Best practice
Recruitment	
<ul style="list-style-type: none">References sought.Interview conducted and applicant's own CV on file.	<ul style="list-style-type: none">Personnel file maintained for each member of staff.Each applicant required to complete an application form.Probationary period required for new staff.Written references taken up and

<ul style="list-style-type: none"> • 'Fit and proper' forms signed and on file, updated if circumstances change. • Independence/confidentiality forms signed and on file, updated if circumstances change. • Written terms of employment (including job description) on file. 	<p>qualifications verified.</p> <ul style="list-style-type: none"> • Annual 'Fit and proper' forms signed and on file. Partners and staff required to declare any changed circumstances when they happen. • Annual independence/confidentiality forms signed and on file. Partners and staff required to declare any changed circumstances when they happen. • Signed contract of employment and job description retained on file and reviewed annually. • Induction programmes produced and followed.
<p><i>Development and training</i></p>	
<ul style="list-style-type: none"> • CPD requirements complied with and records on file. 	<ul style="list-style-type: none"> • Mentor/mentee arrangements in place which are supported by a nominated development and training individual or Training Principal. • Process in place to encourage on-going review of development needs through, for example, manager reviews and peer discussions. • Development process in place that encourages consideration of professional expectations, key risks and requirements of key stakeholders. • Record of the benefit of key development and training activities • Follow-up of training needs and record of follow-up.
<p><i>Technical reference material</i></p>	
<ul style="list-style-type: none"> • Relevant technical material available and is kept up to date. 	<ul style="list-style-type: none"> • Relevant technical reference material obtained with subscriptions to updating services.
<p><i>Consultation</i></p>	
<ul style="list-style-type: none"> • Names of potential external consultants on file (not necessarily a formal agreement with each one). • Written records of consultation on significant issues. 	<ul style="list-style-type: none"> • Internal (or external) consultation required in specific situations. • Signed agreement on file with external consultant

<ul style="list-style-type: none"> • Use of ICAEW technical and other helplines. 	<ul style="list-style-type: none"> • Written records maintained of all internal or external consultations.
---	---

Helpsheets

The following helpsheets relevant to Standard 3 will be available:

Also:

- Helpsheet to include a definition of the term “staff”;
- Suggested contracts of employment.

Standard 4: Quality Control

A firm should ensure that work is conducted within an environment where quality is monitored.

Guidance

A firm should have procedures and systems in place, appropriate to its size, to ensure that:

- the work of the firm is organised and controlled to ensure practice assurance standards are met;
- appropriate supervision and review arrangements are applied;
- all work undertaken is adequately recorded;
- all principals and staff are made aware of the firm’s systems and procedures;
- the firm complies with its own procedures; and
- any complaints from clients are dealt with promptly and effectively.

Organisation and control

The way in which work is organised and controlled will vary according to the size of the firm. Larger firms are likely to need much more sophisticated control and reporting processes than sole practitioners. However, sole practitioners should always bear in mind the possibility of sudden enforced absence, possibly through illness, and make arrangements to ensure that the practice can continue to operate in such circumstances. This may include setting up formal arrangements with another member to cover any period of incapacity.

Firms should ensure that responsibilities are clearly identified. In a firm with more than one principal, it should be clear which principal is responsible for each assignment. Staff should be clear about, for example, who is able to write letters on behalf of the firm and who is able to give tax or other judgmental advice to clients.

Files should be well organised and kept up to date. The filing system should be understood by all members of staff and there should be contingency arrangements in place in case of fire or theft. All files and documentation relating to clients, whether in hard copy or electronic form, should be held securely and confidentiality should be maintained. Receipt and return of client books and papers should be recorded. If any documents, including accounts, are to be made available to third parties, there should be written authorisation from the client. There should be a system of brought forward notification to ensure that matters are attended to promptly and both internally and externally imposed deadlines are met. There should also be a policy regarding file destruction.

Increased dependence on computer systems presents specific threats. There should be regular back up of files and protection from unauthorised access and viruses and the contingency arrangements should include action to cope with major systems failure. Where hard copy documentation is not kept, there should be a policy for computer file retention and file destruction.

Supervision and review

All firms (other than sole practitioners with no staff) should have procedures to ensure that work, including that of subcontractors, is adequately supervised and reviewed before it is finalised. Appropriate procedures should be determined by each firm to minimise the risk of errors and misjudgements that might result in sub-standard output.

It is usual practice for senior staff to supervise and review the work of more junior staff. In addition, a firm may decide that in some circumstances, the work of one principal should be reviewed by another. This is likely to depend on the degree of risk associated with the work. Sole practitioners may decide that there are certain engagements where it is appropriate to have their work reviewed by an external consultant with expertise in the relevant area. Such reviews are part of the assignment process and if review papers are not retained, a note should be made on file that a review has taken place.

Recording work

All significant work undertaken should be recorded on file and sources of information and evidence identified. Care should be taken to make notes of relevant telephone conversations and meetings. All assumptions and estimates should be shown and the thought processes in arriving at judgmental decisions should be recorded. There should be evidence that completed accounts have been agreed by the client. Any oral advice given to a client should be recorded in a file note.

There should be a clear policy indicating who is authorised to write to clients and third parties such as the Inland Revenue. Firms should ensure that they have written authority from the client to act as its agent – for example, in dealing with the Inland Revenue – and there should be written evidence of the client's agreement where accounts or other information are to be provided to third parties.

Complaints from clients

All new clients should be informed in the engagement letter of the firm's complaints procedures and of their right to complain to the Institute. Any complaints from clients should be investigated immediately by a principal of the firm. If, following the investigation, the firm is of the opinion that the complaint is justified, it should do whatever is appropriate to resolve the matter for example, by remedial work, apology, the provision of information, the return of books or documents or the reduction or repayment of fees.

The ethical guidance on The Duty on Firms to Investigate Complaints – Guidance on How to Handle or Avoid Them (Statement 1.112) <<www>> in the Guide to Professional Ethics gives further information on how to deal with complaints.

Compliance review of firm's procedures

The way in which a firm carries out a review of compliance with its own procedures and these standards and, the frequency of the reviews, will depend largely on the size of the firm and the nature of its work.

It is possible for a sole practitioner to carry out a review of his/her own work, perhaps using a proprietary review programme. Alternatively an external reviewer could be of help. Reviews are available from the Institute's Practice Advisory Service, a training group or other similar consultancy, or a reciprocal arrangement can be made with another member who provides similar services.

The review should consider firm issues, such as whether staff are receiving adequate training and whether access to technical material is sufficient. Bank accounts should be reviewed to check that any client money has been dealt with in accordance with the Clients' Money Regulations in the Members' Handbook (Statement 1.111) <<www>>. The review should also include a selection of client files to ensure that the work carried out conforms to the terms of the engagement letter.

There should be a sample check of the output of the firm to verify that the correct systems and procedures have been applied and to check the quality of the work carried out, including that of any advice given. A sample of accounts prepared by the firm should be reviewed to check that they are materially correct and comply with statute and other relevant requirements. A sample of tax files should be reviewed to consider both the calculations and the advice given and the review should identify whether submission deadlines were met. Similar reviews should be carried out in other areas of work. The sample should be selected primarily to focus on higher risk assignments – for example, those where a report is being made to a third party or where the firm has been providing services of a specialist nature. However, all offices of the firm, all professional staff and all types of work should be covered over a period of time.

Examples

Evidence of satisfactory compliance with Standard 4 will vary from firm to firm and will depend principally on the size and complexity of the firm and the nature of its clients.

Examples of best and acceptable practice are given below:

Acceptable practice	Best practice
<i>Organisation and control</i>	
<ul style="list-style-type: none"> • Adequate guidance is given to all staff on all areas of work undertaken. • Filing system in place. • Brief notes maintained, to assist in the absence of the practitioner or key members of staff. • Reminder system in place for tracking work, so that deadlines are not missed. • Relevant file notes kept of telephone calls and meetings. • File retention policy in place. • Sufficient PII cover in place. • Arrangements in place for succession planning and, where applicable, an alternate. 	<ul style="list-style-type: none"> • Office procedures manual covering all types of work undertaken by the firm and its other procedures. • Secure filing and referencing system in place. • Organisation chart maintained. • Reminder system in place for tracking work, so that deadlines are not missed. • File notes kept of all telephone conversations and meetings, highlighting any advice given. • Specific decision taken whether or not any file should be destroyed. • Firm undertakes annual PII review in conjunction with brokers/insurers. • Contractual arrangements in place for succession planning and, where applicable, an alternate.
<i>IT procedures and security</i>	
<ul style="list-style-type: none"> • Back-ups files made and retained on a regular basis. 	<ul style="list-style-type: none"> • Written procedures maintained. • Back-ups files retained at a separate location or in a fire-proof safe.

<i>Supervision and review</i>	
<ul style="list-style-type: none"> • Policy in place for review of files, including hot reviews • Evidence of review on file. 	
<i>Recording work</i>	
<ul style="list-style-type: none"> • All significant work recorded on file. • Final copies of tax returns, signed accounts and other reports on file. • Relevant file note made of any other discussions/enquiries. 	<ul style="list-style-type: none"> • Fully documented files with indexes maintained. • Final copies of signed accounts and other reports on file, cross-referenced to working papers. • File note made of any other relevant discussions/enquiries. • Appropriate work programmes on file. • Procedures documented in manual.
<i>Complaints from clients</i>	
<ul style="list-style-type: none"> • Engagement letter sent to client stating complaint procedures. • Evidence that any complaint from a client has been investigated and resolved. 	<ul style="list-style-type: none"> • Engagement letter signed and returned by client states complaints procedures. • Internal procedures to investigate complaints. • Separate files maintained to show how individual complaints are dealt with.
<i>Compliance Review</i>	
	<ul style="list-style-type: none"> • External cold file review conducted annually. • Results of cold file reviews given to all partners and staff with a note of any required remedial action.

Helpsheets

The following helpsheets relevant to Standard 4 will be available:

Helpsheets to include:

- pro forma alternate agreement for sole practitioners;
- guidance on “practice maps”;
- guidance on IT procedures and security;
- suggested telephone note form;
- suggested complaint form for clients;
- guidance on filing systems;
- guidance on compliance reviews, including frequency of them.

PRACTICE ASSURANCE - HOW WILL IT OPERATE?

The relationship to statutory monitoring

For firms already working in the regulated areas of audit, investment business and insolvency, the additional requirements of Practice Assurance will be taken in during a single combined visit.

Firms not currently working in a regulated area would receive a Practice Assurance only visit and complete an Annual Return, as described below.

Who will it affect?

All members who hold a Practising Certificate will come within the Practice Assurance scheme. We will monitor:

- all member firms in the UK and abroad
- which are controlled by Institute members
- whether or not they use the description Chartered Accountants.

It is expected that mixed practices – which fall outside the definition of a member firm - will be monitored by the firm's parent body. For example, a five partner firm, where three of the partners are members of another professional accountancy body, would be covered by the that bodies arrangements for quality assurance.

Standards

Firms will be required to demonstrate that they comply with clearly defined Practice Assurance standards. The Practice Assurance standards have been developed with members working in a wide variety of practices, and have been subject to widespread consultation. There are four clear standards to address:

1. Laws, Regulations and Professional Standards;
2. Client acceptance and disengagement;
3. Competence;
4. Quality Control

The standards are principles based, not prescriptive, and provide useful examples of “best” and “acceptable” practice.

Reviewers will assess whether a firm's procedures are effective and appropriate to its size and the nature of work it does. It is fully recognised that firms operate differently and that the procedures followed by a sole practitioner are likely to be very different to those in a larger firm.

Copies of the standards can be found at www.icaew.co.uk/practiceassurance. Hard copies are available from Heather Walker on 01908 546350.

Support to firms receiving a visit

Firms will receive the following help in support of Practice Assurance:

- **advice and guidance** - available during a visit from Practice Assurance reviewers;
- **support products and services** - available from the Member Services Directorate, Support Members and the Practice Society;
- **a range of helpsheets and proformas** - that can be adapted to suit individual member firms, available free of charge, online, on CD Rom and in hard copy;
- **a new dedicated area of the website** - providing a “one-stop shop” for member firms with free helpsheets, guidance notes, links for CPD, copies of standards and regulations, information on visits and links to other bodies such as the Inland Revenue and the Charity Commission. It will alert member firms to new issues and matters causing concern to those bodies; basically, things to watch out for;
- **a helpline** – to answer any questions firms may have.

The Annual Return

Firms will be sent a single annual return covering all areas of work they undertake, including work in the regulated areas. It will be used to obtain information about the "shape" of a firm and to assist in visit selection.

The Annual Return will be short and sharply focused, easy to understand and available both online and in hardcopy together with definitions and guidance notes.

The annual PII Statement of Compliance and statements relating to Client Money and Money laundering Regulations will be included in the one return.

There will be some flexibility on the submission date, in order to help firms avoid busy periods.

The latest version of the Practice Assurance-only annual return is attached to this paper (**Annex 1**) or can be found at www.icaew.co.uk/practiceassurance .

Practice Assurance and the existing monitoring process

Firms already working in one of the regulated areas will complete one annual return and for most firms, regulatory and Practice Assurance requirements will be combined in a single visit.

Visit selection

Firms will be selected on a basis of risk analysis – using the annual return – and a combination of cyclical and random selection. The risk analysis will also take account of any internal or external reviews firms may have carried out. Visits may also be arranged in response to complaints.

Frequency

Firms not operating in the regulated areas will on average receive a visit once every six years. The frequency of monitoring visits in the regulated areas will remain unchanged.

Reviewers

Practice Assurance visits will be conducted by reviewers from the Institute's Quality Assurance Directorate, with wide experience of similar practices.

The emphasis will be on supporting firms and identifying sources of guidance to enable firms to remedy any areas of concern or potential risk.

Information gained during a visit will be treated with strictest confidence within the process. Reviewers will sign annual declarations of independence and confidentiality.

Before a visit

You will be given 6-8 weeks' notice of a visit and will receive an opening meeting aide-mémoire, and a list of the documents and records that you may want to have to hand on the visit. These will set out the areas likely to be covered and will provide details of information likely to be covered during the opening meeting. (Copies are available at www.icaew.co.uk/practiceassurance).

The reviewer will contact the firm shortly before the visit, to answer any questions and outline the format of the visit.

Scope of the visit

Reviewers will check that firms have procedures in place that:

- are appropriate to the size and nature of the firm;
- operate as described; and
- result in compliance with the Practice Assurance standards.

For the purpose of assessing the operation of the firm's processes, some client files will be reviewed. The number will depend on the nature and type of work undertaken. Reviewers will not normally assess the quality of advice given to clients.

Length of visit

For the majority of small firms, which do not operate in a regulated area, the visit should not take more than one day. Many firms should know the outcome of the visit on the day. Larger firms with more complex and extensive processes will take longer to assure.

Format of visit

The visit is designed to add value and provide constructive advice to firms. It will not be a mechanical, box ticking exercise.

Where firms have clear processes and procedures, the reviewer will be looking to identify opportunities for even greater efficiency.

A key aspect of the reviewer's role is to provide advice and act as a consultant to member firms.

Opening meeting

An opening meeting will be held to understand:

- how the firm operates;
- the services it provides;
- the areas to be reviewed.

The opening meeting will focus on the firm's annual return and will cover areas mentioned in the aide-mémoire.

The reviewer will then carry out file reviews and write a summary of findings.

Closing meeting

There will be a closing meeting to discuss the outcome of the visit, and firms will have plenty of time to discuss findings and other matters with the reviewer. Firms will receive a report summarising the findings of the reviewer. This will include details of strengths and weaknesses.

Where the outcome of the visit is satisfactory, the firm will receive a letter to confirm on the day of the visit. Where some action is required, the firm will be asked to respond in writing – usually within two weeks – to the points raised at the closing meeting. Once sufficient visits have been conducted, we will try to give you some indication of where you stand against a general benchmark.

As soon as the firm's responses have been received, the reviewer will prepare a report for the Practice Assurance Committee.

Visit meetings

Opening and closing meetings will be held to obtain a picture of how the firm operates and the services it provides, the areas that will be reviewed, and the outcome of the visit. The visits will be designed to add value and provide constructive advice to assist firms in meeting the standards. They will not be mechanical, box-ticking exercises.

The opening meeting will focus on the firm's Annual Return confirmations and evaluations of client service and other areas within the scope of Practice Assurance. The reviewer will be looking to satisfy himself/herself that the firm is meeting the required standards. File reviews will be carried out to check that partners and staff are adhering to the procedures and systems that are in place. The results of the reviewer's work will be summarised and conclusions drawn.

At the end of the visit a closing meeting will be held to consider the visit findings, identify strengths and weaknesses and answer any questions the firm may have. Where necessary, the firm will be required to provide a written response to points raised at the closing meeting.

How will it work for Practising Certificate holders abroad?

Initially member's abroad will be asked to complete an annual declaration, to allow the best way to assess their practices to be determined.

How will it work for Practising Certificate holders who are not engaged in public practice?

Members who hold a Practising Certificate but who are not engaged in public practice will be asked to complete an annual declaration confirming that they do not engage in public practice and to inform the Institute before engaging in public practice. Members in this category will be subject to the Institute's continuing professional development requirements and will be expected to undertake CPD relevant to re-entering practice.

Reporting and decision making

There will be a peer committee that will:

- consider reports and firms' closing meeting notes where serious areas of concern have been identified and the firm has been unwilling or unable to rectify them;
- decide action to be taken;
- address issues raised by firms, including any dissatisfaction with the handling of visits;
- keep the Practice Assurance Standards under review.

The Committee will comprise volunteer practitioners and lay members.

Sanctions

If there is a persistent failure to take the action specified by a peer committee, it may refer the matter for consideration of disciplinary action, including the withdrawal of practising certificates.

It is hoped that, with Institute support to help firms deal with problems, the need for sanctions should rarely arise. In those few instances where they do, the usual mechanisms, which include the right of appeal, will apply.

What will it cost?

Practice Assurance will be a self-financing activity. A fee will be charged to all Practising Certificate holders to cover the cost of monitoring.

The annual Practice Assurance fee will be collected at the same time as the Practising Certificate fee. The Practice Assurance fee for each practising certificate holder is likely to be between £80 and £100. No charge will be made until January 2005.

Next steps

The decision to implement Practice Assurance will be subject to the members' vote at the Special Meeting in June 2004.

The intention is to continue to "pilot test" visits until June 2004.

Practice Assurance visits would then start in September 2004 for firms already working in one of the regulated areas and January 2005 for firms not working in one of the regulated areas.

This should provide time for firms to become familiar with the standards and for the Institute to conduct further road shows explaining how Practice Assurance will work and to respond to requests for help in preparing for it.



Practice Assurance-only Annual Return

<<Annual Return date of issue >>

You must return this form by: <<Return date>>

There is space at the end of the form (Section 14) for you to provide additional information.



A STANDING DATA

We have filled in the right hand column using data held by the ICAEW. Please update, amend or complete as necessary.

1	Firm information		
1.1	Firm name	Smith, Smith & Smith	
1.2	Trading name if different from above	N/A	
1.3	Does the firm describe itself as "Chartered Accountants"? (Statement 1.110)	YES	
1.4	Firm number	1234567	
1.5	Office number	5482163	
1.6	Address of sole or principal office	1 High Street	
		Newtown	
		Bucks	
1.7	Postcode	HP00 0WW	
1.8	Tel	01908 444111	
1.9	Fax	01908 333333	
1.10	Authorised ICAEW training office	YES	
1.11	Name of Practice Assurance Principal	Mrs Jane Peters FCA	
1.12	Email address of Practice Assurance Principal	Jane.peters@smithx3.co.uk	
1.13	Firm's website address, e.g. www.zyx.co.uk	www.smithx3.co.uk	
	Is the firm regulated for:		
1.14	Audit	If "Yes" by whom	Yes ICAEW
1.15	Investment Business	If "Yes" by whom	Yes FSA
1.16	Insolvency	If "Yes" by whom	No

2	Addresses of other offices		
2.1	Office number	7862594	
2.2	Address	12 Main Street	
		Hopton	
		Bucks	

		MK9 3ZZ
2.3	Authorised ICAEW training office	
	Market Day office	No
2.4	Office number	N/A
2.5	Address	N/A
2.6	Authorised ICAEW training office	N/A
2.7	Market Day office	N/A