



...Strength in Numbers

The SPA Newsletter May 2019

Welcome to the May 2019 SPA newsletter **The QAD Edition**

(See page 2)

SPA News

We hope you had a calm and profitable tax return season in January. If you have tips for other SPA members as to how to avoid January Tax Return Stress we would love to hear them

AGM 2019 - bookings now open

This year's AGM will take place at Knebworth House, near Stevenage, Hertfordshire on 12 June 2019.

Another beautiful setting, with excellent facilities and a reasonably priced Novotel Hotel on site.

As for the last 2 years, there will be no charge for the event, but we need to know the numbers attending so that we can book the catering and other activities. Please email mail@spa.org.uk or call 0207 549 1698 - no need to wait for an application form.

We look forward to welcoming you.

SPA's new website

We have launched our new look website on www.spa.org.uk and hope you like it. Changes to the technology behind websites and GDPR mean that we are having to look again at the members area on the old site and how we can best use the website to connect members and provide services. As a result the site will continue to evolve and we would love to hear any suggestions you have for making it as useful as possible.

Initial Croner Taxwise Seminar 14th March

This new venture with Croner Taxwise which was attended by 25 members, was well received - including a sterling performance from SPA chair Howard Gross. We are hoping that this will prove to be the first of a number of such events.





...Strength in Numbers

The SPA Newsletter May 2019

Who's afraid of the QAD?

For many years SPA has maintained open channels of communication with QAD and ICAEW's regulatory and disciplinary systems. We've held regular meetings with Paul Simkins, QAD's director, inspectors and other QAD staff have addressed our AGM and Duncan Wiggetts, ICAEW's Executive Director of Professional Conduct was the keynote speaker at our AGM in 2016.

So what should SPA members know about QAD's approach in 2019? Should you be scared? Or are there ways you can manage things before, during and after QAD visits so that the process causes as little stress as possible.

As members will know, all of this is in the context of a veritable tsunami of reviews and reports into our professional world. The main thrust of these concerns the PIE (Public Interest Entity) sector, but we all know that these may have an impact on the whole profession.

For our members who are not members of ICAEW, although we do not have as longstanding knowledge of ACCA's equivalent systems, we do have a certain amount of experience of ACCA's equivalent processes, and we hope that the observations which follow will be helpful to you as well.



What are the QAD facts of life?

Responsibilities

QAD is responsible for carrying out reviews and inspections of ICAEW firms covering the following regulated areas:

- Audit
- Insolvency
- Investment business (DPB)
- Probate
- Licensed Practitioner Scheme (LPS) - currently this is the CAA scheme for auditors of ATOL licence holders, but QAD has other applications in mind for the approval of non audit registered firms to carry out certain non-statutory assurance engagements.

Practice Assurance

In addition QAD is responsible for monitoring firms' compliance with ICAEW's Practice Assurance Standards. The Practice Assurance regime was designed to be constructive and supportive of ICAEW members. Its ethos is to help ICAEW members to conduct their practices in accordance with accepted professional standards and to encourage best practice.



...Strength in Numbers

The SPA Newsletter May 2019

This is intended to be in contrast with QAD's responsibilities for the regulated areas - if you fail to comply with the rules in those areas, you clearly run the risk of no longer being able to practice **in those areas** but Practice Assurance covers the areas of practice which are not subject to specific regulation.

Nevertheless, it is possible for a practice assurance visit or review to uncover issues which indicate infringement of the rules in the regulated areas, or non-compliance with other professional requirements - the ethics code, client money regulations, the anti-money laundering regime, for example - which can lead to disciplinary consequences. So however supportive the intentions of the regime may be, members have to be aware and take the process seriously.

Outcomes from QAD visits and reviews

All being well, the visit will go fine, no issues will be raised and everyone will part as friends.

However, whilst some visits end with no action needing to be taken, most throw up some issues. The vast majority are resolved by undertakings from the firm, simply to take corrective action. A significant, but much smaller number result in conditions being imposed - usually requirements for external cold or hot file reviews, or reviews of the firm's client money or anti-money laundering arrangements.

A stubborn minority - about 10% - of audit visits end with more severe disciplinary action. This is a figure which has been quite stable for some years. Obviously these are not the same firms each year, so there seems to be a residual population of firms who are either unaware of the requirements of the ISAs or who perhaps no longer care.

QAD's top issues from practice assurance visits

- **Accidental investment advice** - It may seem obvious, if you're not an IFA, that you shouldn't advise your clients on what to do with their share portfolio, but it can be difficult if they ask "what would you do?" The arrival of auto-enrolment may also give rise to issues.
- **Letters of engagement** - Recommended wording is available from ICAEW's website (although suggested wording to cope with GDPR took so long to organise that SPA gave its own suggested wording in the September newsletter). SPA vice-chairman Nigel Hughes says from his experience of file reviews, it is not uncommon to come across engagement letters which are starting to look rather old, sometimes even letters in the name of a predecessor firm. He recommends that you should consider refreshing your engagement letters at least every 3 years and if an event like the advent of GDPR happens, take the opportunity to issue new letters. It has been known for QAD inspectors to go through engagement letters in some detail, but we would expect that an undertaking to





...Strength in Numbers

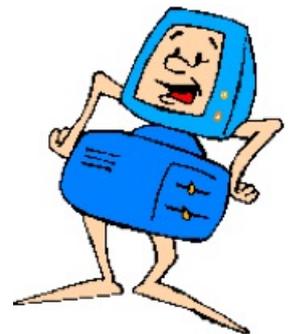
The SPA Newsletter May 2019

review and refresh letters should normally be enough to put an end to the issue **provided** you carry it out.

- **Professional indemnity insurance** - Let's be clear: if you are in practice, you need a practising certificate and PII and not to have these is a breach of the ICAEW rules. There are de minimis exemptions for work for family and friends and small charities which can be found at the flow chart on ICAEW's website [here](#) . We have a certain amount of sympathy for those who commit "technical breaches" of the rules due to illness or other valid reasons, but the straight answer is that you need PII if you are in practice and it is best to make arrangements for the automatic renewal of your policy if you can. SPA has links with [Arlington](#) who will provide competitive quotes.
- **Commission** - Broadly speaking there is a duty to pass on commissions received from providers of services to the client unless there is written permission from the client for the firm to retain them. If the nature of the relationship is such that DPB rules apply, this permission must be given for each transaction which generates commission for the firm. Some fee protection plans are constructed in such a way that a DPB licence is not required and in these cases a general permission from the client for the firm to retain commission included in the engagement letter, is sufficient. SPA members have encountered inspectors who do not fully appreciate the difference here, and we recommend that you are fully aware of the nature of any such schemes your firm is a party to.
- **Inaccurate annual returns** - These are usually fairly trivial genuine mistakes, but QAD takes those which are not, very seriously. We have discussed areas such as the analysis of a firm's fees with QAD and have been told that sensible estimates are acceptable.
- **Statutory accounts** - If in doubt use software, or a checklist and, at times of change such as the implementation of FRS102, probably both.
- **Eligibility** - This is the whole raft of issues about the rights of firms to describe themselves as Chartered Accountants and whether or not they can undertake work in the regulated areas. The implications for Anti Money Laundering (AML) supervision are also significant - you have to be registered with a recognised authority for AML purposes and being within the ICAEW Practice Assurance scheme, gives you this automatically. We are aware that the regulations for Probate licences can be complex and costly and that this has led to difficulties. The ownership of practices when some senior management are not ICAEW qualified and particularly when using corporate structures can also lead to problems.

The top 3

- **IT and Data Protection** - We have dealt at some length with GDPR in a previous newsletter, but this is number 3 in the QAD chart and we will be happy to hear about further cases as we all get to grips with the new regime.
- **Clients' money** - This is number 2 in the QAD chart and is a current topic as some uses of client accounts have prompted a change in the





...Strength in Numbers

The SPA Newsletter May 2019

rules. The ICAEW regulations can be accessed [here](#) and are not particularly complicated.

If you hold client money:

- It must be connected with the provision of an accountancy service
 - It must be held in a suitably designated account (separate accounts for amounts over £10,000 attributable to individual clients and some banks have a problem with large numbers of such accounts) and separate from your office funds.
 - The rules for reconciling client money accounts must be complied with.
 - Amounts paid out of client money accounts require authorisation from the client.
- **Anti-money laundering procedures (AML)** - This is top of the QAD chart and we have also looked at a number of aspects of the AML regulations in recent newsletters. As we have recommended before please read regulations 18, 19 and 21 for yourselves, even if you delegate everything else to someone else. They will tell you about the requirements:
- To carry out risk assessments about money laundering (There is guidance on the [ICAEW Website](#))
 - The need to have written policies and procedures for dealing with AML issues
 - The need to have suitable internal controls to pick up potential money laundering risks.



The need for staff training, client due diligence procedures etc. are all reasonably well known, but the need to implement AML risk assessment procedures when engaging staff may be less familiar.

There has also been a certain amount of excitement about the need to be able to demonstrate that Beneficial Owners, Officers or Managers (BOOMs) of firms do not have unexpired criminal convictions. BOOMs represent quite a restricted category of personnel, particularly in smaller practices - for sole practitioners it means you, only you - and we recommend that when notified of a QAD visit you obtain a DBS check on all the BOOMs in the practice.



...Strength in Numbers

The SPA Newsletter May 2019

A short checklist

- Look at the closing meeting notes from your last review and make sure you have done what you said you would do.
- Think very carefully about whether advice you give could be interpreted as investment business.
- Review engagement letters and refresh where necessary
- Make sure your PII cover complies with the rules
- If you receive commissions, remit them to the client or obtain written permission to retain them.
- Take care when completing your annual return
- Consider using software or at least a disclosure checklist for statutory accounts
- Be clear about your eligibility to describe your firm as Chartered Accountants and to practise in the regulated areas.
- Be especially careful if your firm is a corporate structure, or if there are multiple practices
- Think about GDPR - see the checklist in SPA's April 2018 Newsletter.
- Be clear about whether you hold client money or not
- Anti- Money Laundering
 - Risk assessment
 - Written policies and procedures
 - Suitable controls
 - Client due diligence
 - Staff training
 - DBS checks
- CPD records
- Audit registered?
 - When was your last review? (If 6 years have nearly gone by - prepare for the next visit)



...Strength in Numbers

The SPA Newsletter May 2019

Share your experiences

The vast majority of QAD reviews go well and many firms find the chance to reflect on their practices and procedures a useful experience.

Inspectors are usually knowledgeable and helpful. They can sometimes get it wrong, however - we are aware of one case which seemed to be straightforward enough, about the ownership of a practice and eligibility to describe the firm as Chartered Accountants but the inspector got the wrong end of the stick and then refused to back down.

Nevertheless difficulties can usually be resolved if you keep a cool head.

SPA is always here to help and we can be more effective if we hear of your experiences (good as well as not so good) and any tips you have for making members' next visits go as smoothly as possible.



...Strength in Numbers

The Society of Professional Accountants

5 St. John's Lane London EC1M 4BH
Tel: 0207 549 1698 | E-mail: mail@spa.org.uk