

Regulatory statistics – practice monitoring

Contents

Introduction	3
Statutory audit monitoring	3
Regulatory action	5
Approved Employers	7
Investment business	7
Insolvency	8
<i>ACCA Quality Checked</i> visits within the UK and Ireland	8
Global monitoring	9

Introduction

ACCA's monitoring activities include:

- **Statutory audit monitoring:** Monitoring compliance with auditing standards in the United Kingdom and Ireland where ACCA is a statutory regulator
- **Monitoring of Approved Employers:** Monitoring firms engaged in public practice which are approved by ACCA to train employees towards acquiring membership, practising certificates and the audit qualification
- **Monitoring other regulated areas:** Monitoring compliance with legislation and standards of regulated work in

certain areas such as investment business in Ireland and insolvency work in the UK

- **ACCA Quality Checked:** Reviewing quality controls and the provision of professional services other than audit, to help raise standards in the profession and to recognise firms that implement best practice standards by the award of *ACCA Quality Checked*
- **Global monitoring:** Monitoring firms outside the UK and Ireland, usually under contract on behalf of other accountancy bodies and regulators.

All ACCA members must comply with the *ACCA Rulebook*, and therefore ACCA believes that it has a responsibility to monitor all members' compliance with the rules that are particularly relevant to those in public practice. This is undertaken at audit, insolvency and investment business monitoring visits, *ACCA Quality Checked* visits and also through 'desk top' monitoring. However, the extent of ACCA's monitoring activities varies in different countries in order to minimise duplication of effort in those countries where effective monitoring and regulation has been established by the national body or independent regulator.

Statutory audit monitoring

In the UK, ACCA is a Recognised Supervisory Body (RSB) and a Recognised Qualifying Body (RQB) under the Companies Act 2006, which enables it to award the UK statutory audit qualification and to register and regulate auditors. In Ireland, ACCA registers and regulates auditors under the Companies Act 1990. In both of these countries, company audit work is restricted to registered auditors whose audit work must be supervised by a recognised accountancy body. These statutory recognitions impose additional responsibilities on ACCA, including the requirement to visit all firms registered by ACCA which hold audit appointments to monitor the standard of their audit work.

ACCA also registers and regulates members of the Association of Authorised Public Accountants (AAPA) who conduct company audit work in the UK.

VISIT OUTCOMES

At the conclusion of the audit monitoring process, a firm is graded as follows:

- **Good:** The firm complies with the Global Practising Regulations (GPRs) and the Code of Ethics and Conduct (CEC); it is eligible for audit registration and complies fully with relevant auditing standards.
- **Satisfactory:** The firm is eligible for audit registration; it complies with the GPRs and CEC, and 50% or more of the audit files inspected comply substantially with relevant auditing standards.
- **Unsatisfactory and improvements required:** The firm is eligible for audit

registration, and complies with the GPRs and CEC; but its quality controls over audit work are not effective, and the majority of the audit files inspected do not comply with relevant auditing standards.

- **Unsatisfactory and significant improvements required:** The firm is eligible for audit registration but does not comply with the GPRs and CEC and/or its audit work does not comply with relevant auditing standards.
- **Regulatory action required:** ACCA has referred the firm to a Regulatory Assessor or the Admissions and Licensing Committee to consider taking regulatory action, as the firm is either

ineligible for audit registration, or there are serious or repeated breaches of the GPRs or CEC, or where audit work has been unsatisfactory. In some cases a firm will take effective measures to remedy the matter and regulatory action will not be required. 'Regulatory action' in this context includes ACCA referring the findings of a monitoring visit to the Professional Conduct Directorate to consider whether disciplinary action is appropriate.

During 2012, ACCA amended its approach to assessing the overall visit outcome on the conduct of audit work. Previously, if there was one unsatisfactory file among those inspected, the overall visit outcome was assessed as

Statutory audit monitoring

unsatisfactory. From 1 April 2012, where at least 50% of the audit files inspected are satisfactory, the overall outcome is considered satisfactory, subject to the firm providing a detailed action plan explaining how it intends to rectify the deficiencies found in its audit work and ensuring that it achieves a consistent satisfactory standard of work in future. However, if the deficiencies found in one or more audit files are considered pervasive, the overall outcome of the monitoring visit will be assessed as unsatisfactory.

The requirement for all firms to submit an action plan was introduced to assist and encourage the firm to make the necessary improvements. ACCA assesses whether the action plan is likely to be effective and requires the firm to amend the plan, if appropriate.

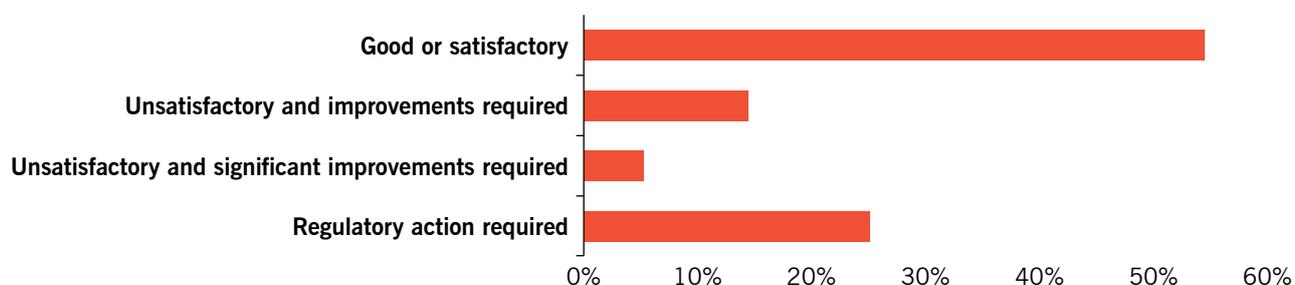
Outcomes of monitoring visits to audit registered firms that hold appointments (UK and Ireland)

In the year to 31 December 2012, 390 statutory audit monitoring visits were

undertaken to registered firms in the UK and Ireland which held audit appointments, compared with 364 visits in 2011.

In view of the limited number of visits undertaken each year, the change in approach during 2012 to assessing the overall visit outcome and the focus on firms with previous unsatisfactory outcomes, no conclusions can be drawn by comparing visit outcomes from one year to the next.

The outcomes of the visits undertaken in 2012 were as follows:



OUTCOME	2010 %	2011 %	2012 %	2012 No.
Good or satisfactory	48	48	55	215
Unsatisfactory and improvements required	16	15	14	53
Unsatisfactory and significant improvements required	2	5	5	21
Regulatory action required	34	32	26	101
Total	100%	100%	100%	390

A further 233 (2011: 56) firms, which held audit registration but had no audit clients, were also monitored, most on a 'desk top' basis, 225 of which had a satisfactory outcome.

The following table analyses the outcomes by distinguishing between the results of first visits to recently registered firms, visits undertaken in accordance with the normal routine cycle of six years and those visits undertaken earlier than the normal six year cycle where a higher

risk has been identified by staff, the Regulatory Assessor or the Admissions and Licensing Committee:

ACCA uses risk factors to determine whether a firm should be visited on a normal cycle every six years, or earlier. Risk factors taken into account include the outcome of the previous visit and the number and type of audit clients. For example, firms, which have high risk clients or which carry out a significant amount of audit work or where the firm's

structure indicates that control problems may exist, will be visited sooner than those which do not.

Where ACCA finds that a firm needs to make improvements to its audit work it will normally be scheduled for a follow up visit within four years but where the audit work is found to be seriously unsatisfactory and significant improvements are required, the follow up visit will normally take place within two years.

OUTCOMES OF AUDIT MONITORING VISITS IN 2012 TO FIRMS REGISTERED BY ACCA TO CONDUCT AUDIT WORK AND HOLDING AUDIT APPOINTMENTS, BY REASON FOR VISIT					
REASON FOR VISIT	No.	Good or satisfactory %	Unsatisfactory and improvements required %	Unsatisfactory and significant improvements required %	Regulatory action required %
First visit to recently registered firms	69	32	19	20	29
Subsequent visit after 6 years	142	63	17	4	16
Early follow-up initiated by staff after 4 years	104	60	12	1	27
Early follow-up initiated by staff after 2 years	27	59	8	0	33
Ordered by Regulatory Assessor or Committee	48	48	2	2	48
Investigative	0	0	0	0	0
Total	390	55	14	5	26

Regulatory action

With a few exceptions, matters arising from monitoring visits are referred to the Admissions and Licensing Committee, or the Regulatory Assessors who act under delegated authority from the Committee. The regulatory action is intended to prevent registered firms from continuing with conduct that poses a risk to the public interest. It is not disciplinary action and is concerned only with how firms are likely to conduct themselves in the future rather than punishing past misconduct. The regulatory action taken includes refusing to register firms or renew their registration, removing registration, imposing conditions on continuing registration, or withdrawing certificates or imposing conditions on any future reapplication for a certificate which the holder has voluntarily relinquished.

The Admissions and Licensing Committee, which holds its meetings in public, is independent of ACCA, and operates independently of the monitoring process. The members of this Committee are drawn from a central panel of members who also serve on the Disciplinary and Appeal Committees. ACCA Council members and ACCA staff are not eligible to be members of this panel.

The role of the Regulatory Assessors is to consider reports and correspondence referred to them by Practice Monitoring. Regulatory Assessors have the power to make a number

of different orders but the power to remove registration rests solely with the Admissions and Licensing Committee. In addition, any registered firm which is unwilling to accept a Regulatory Assessor's order has a right to have the matter considered by a full hearing of the Committee.

Firms may apply for permission to appeal against the decisions of the Committee, but must demonstrate they have the necessary grounds for the appeal to be heard.

When monitoring visits identify firms with poor standards of compliance

with auditing standards, ACCA takes a progressive approach by providing advice and guidance at a first visit, but takes action if subsequent visits show that firms have failed to act on this advice. Nevertheless, if a firm has made little or no attempt to carry out an audit in accordance with auditing standards, or it is in the public interest to do so, then the findings will be referred to a Regulatory Assessor following a first visit.

A similar approach is applied to investment business and insolvency work.

Regulatory action

SUMMARY OF REASONS FOR REGULATORY ACTION ARISING FROM AUDIT MONITORING VISITS UNDERTAKEN IN 2012		
CIRCUMSTANCES	2011	2012
Inadequate improvement in compliance with auditing standards after a second or subsequent visit or no attempt to apply standards at a first visit	60	51
Inadequate improvement in compliance with auditing standards after a visit ordered by the Regulatory Assessor or Admissions and Licensing Committee	21	15
Failure to maintain the standard of audit work following release from a previous Assessor or Committee order to have audit work 'hot' reviewed	5	8
Failure to conduct audit work to a satisfactory standard following the withdrawal of audit registration and subsequent re-registration	0	2
Fit and proper	0	0
Independence	2	1
Eligibility – control by qualified persons/control of audit work	28	15
Other eligibility matters (eg PII/continuity)	5	0
Non co-operation with monitoring process	2	1
Other	9	21
Total	132*	114*

* includes three firms (2011: four) that had no audit clients. In 10 cases (2011: 11) there is more than one reason for a requirement for regulatory action so the total of the analysis above exceeds the number of visits referred for regulatory action.

SUMMARY OF REGULATORY ACTION TAKEN IN 2012 AGAINST FIRMS WITH AUDIT REGISTRATION AND HOLDING AUDIT APPOINTMENTS		
ACTION TAKEN	2011	2012
'Hot' review/early follow-up	68	41
Registration removed or voluntarily surrendered	17	30
Remedied by firm	33	15
Referred to Professional Conduct	8	20
Other	4	3
Total	130	109

Note: The total of visits undertaken in 2012 and referred for regulatory action differs from the summary of regulatory action taken in the year because of timing differences between the date a visit is undertaken and the date when subsequent regulatory action is taken.

Approved employers

Any office of a firm which employs ACCA trainees or members who are training towards an ACCA practising certificate and UK audit qualification must hold Practising Certificate Development (Audit) status. The monitoring process

is to ensure compliance with the criteria agreed with FRC-POT.

Relevant information on the number of firms registered and monitored is as follows:

The principal reasons for the withdrawal of registration are office closures, mergers, requests from offices and offices no longer actively training ACCA trainees and/or members.

AS AT 31 DECEMBER	2010	2011	2012
Number of registered training offices	4,622	4,283	3,949
Number of offices registered to provide training for the UK audit qualification	3,371	3,208	3,086
Number of registrations withdrawn	376	515	194
Number of approved training offices visited	1,052	756	481

Investment business

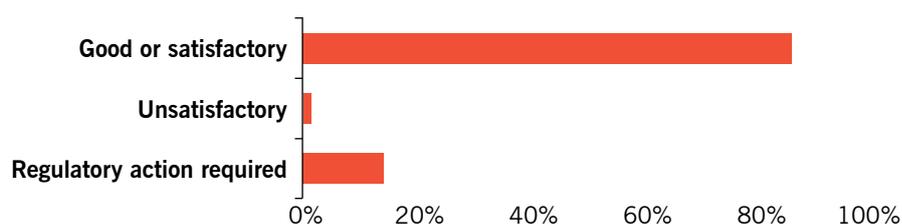
ACCA regulates investment business activity by members in Ireland and provides annual statistics to the Central Bank of Ireland.

In the year to 31 December 2012, ACCA carried out 45 (2011: 29) investment business monitoring visits in Ireland.

Regulatory action was required in respect of five firms which did not meet the capital adequacy requirements and were therefore not eligible to hold investment business authorisation. The firms subsequently remedied their position or, in one case, relinquished its investment business certificate. In the sixth case the firm did not hold an investment business certificate but was introducing clients to a related firm. The firm subsequently applied for, and was issued with, an investment business certificate.

In the UK, ACCA members are required to be authorised by the FCA if they carry out investment business activity over and above basic non-advisory, introductory work (known as Exempt Regulated Activities (ERAs) under the relevant legislation). ACCA maintains a record of members who carry out ERAs.

OUTCOMES OF INVESTMENT BUSINESS MONITORING VISITS IN IRELAND – 2012



OUTCOME	2010 %	2011 %	2012 %	2012 No.
Good or satisfactory	94	93	85	38
Unsatisfactory	6	0	2	1
Regulatory action required	0	7	13	6
Total	100%	100%	100%	45

Insolvency

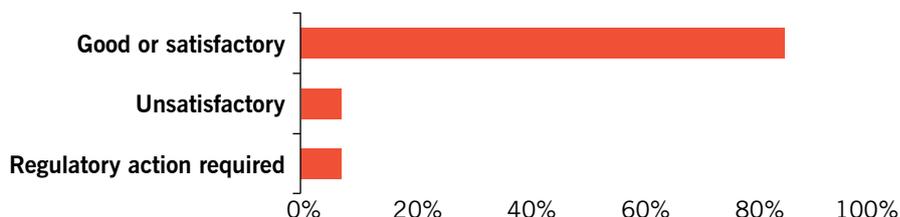
ACCA is authorised to issue insolvency licences to both members and non-members, subject to applicants meeting minimum eligibility requirements.

In the year to 31 December 2012, ACCA carried out 41 (2011: 48) insolvency monitoring visits in the UK.

There were no (2011: one) introductory visits carried out to insolvency practitioners who had recently received a licence from ACCA. Introductory visits are advisory in nature and are not given an outcome.

The three insolvency practitioners where regulatory action is required are all being referred to the Regulatory Assessor because of the standard of the insolvency work, but the decision in each case is not yet known.

OUTCOMES OF INSOLVENCY MONITORING VISITS IN THE UK – 2012



OUTCOME	2010 %	2011 %	2012 %	2012 No.
Good or satisfactory	70	92	86	35
Unsatisfactory	17	8	7	3
Regulatory action required	13	0	7	3
Total	100%	100%	100%	41

ACCA Quality Checked visits within the UK and Ireland

The aim of the *ACCA Quality Checked* scheme is to encourage member firms to apply good quality control procedures over all areas of their work to enhance the standard of the service they deliver to their clients while minimising risk.

ACCA Quality Checked visits are mandatory to all member firms that have a majority of ACCA members as principals and are controlled by qualified accountants and/or members holding an insolvency licence from ACCA. Where a firm is due to receive a monitoring visit and an *ACCA Quality Checked* visit, ACCA will endeavour to carry out these visits alongside each other.

Firms which demonstrate at a visit that they have met the high standard of quality control procedures required by the scheme are given the *ACCA Quality Checked* award. They are entitled to use the *ACCA Quality Checked* logo on their letterhead and promotional literature.

Firms which do not meet the standard at the time of the visit are

actively encouraged to implement the recommendations for improvements, although they are not obliged to do so. The improvements in their procedures are reassessed before they can be issued with the *ACCA Quality Checked* award.

At 31 December 2012, 502 (2011: 472) firms in the UK and Ireland held the *ACCA Quality Checked* award. The

ACCA Quality Checked visits within the UK and Ireland

difference between the number of firms holding *ACCA Quality Checked* at the end of 2012 and the preceding year arises from new awards issued, firms ceasing to exist, mergers between firms and certificate removals.

ACCA also carries out 'desk top' advisory and compliance reviews to extend the benefits of the *ACCA Quality Checked* scheme to all member firms in the

UK and Ireland on a six year cycle by requesting firms complete the *ACCA Quality Checked* online self-diagnostic tool. The monitoring of rule compliance is covered by firms completing a questionnaire and submitting supporting documentation via email. During 2012, 273 firms were reviewed by this method, 200 of which are also included in the 233 firms which hold audit registration monitored on a 'desk top' basis referred

to in the audit monitoring section of this report above.

Desk top monitoring is supplemented by visits to firms that are considered high-risk. In addition, firms will not be eligible for the *ACCA Quality Checked* award without receiving an *ACCA Quality Checked* visit.

	2011	2012
ACCA Quality Checked visits conducted	179	198
Firms awarded <i>ACCA Quality Checked</i> (including revalidations)	85	84

Global monitoring

While ACCA is a statutory regulator of audit work in the UK and Ireland, in other countries audit work is carried out under the authorisation of the national accountancy body or independent audit regulator.

However, ACCA carries out audit monitoring visits under contract for a number of national bodies or regulators in countries outside the UK and Ireland.

Where half or more of the principals of the firms monitored under contract are ACCA members, the visit includes an *ACCA Quality Checked* review and a check that the firm is complying with key ACCA regulations, in addition to audit monitoring.

Where half or more of the principals of the firms are not ACCA members but at least one of these principals is an ACCA member, the visit includes a check that the firm is complying with key ACCA regulations but an *ACCA Quality Checked* review is not undertaken.

MONITORING VISITS UNDERTAKEN UNDER CONTRACTS WITH NATIONAL BODIES AND REGULATORS

In Cyprus, ACCA carries out audit monitoring of firms registered by the Institute of Certified Public Accountants of Cyprus (ICPAC), which has statutory responsibility for the regulation of the profession in Cyprus. Alongside these audit monitoring visits, ACCA undertakes quality assurance visits to firms under ICPAC's quality assurance scheme, ICPAC Quality Checked, which has been developed from ACCA's own quality assurance scheme, *ACCA Quality Checked*.

During the year ACCA agreed a six year audit monitoring plan with ICPAC, which envisages an almost three-fold increase in the number of monitoring visits to be undertaken by ACCA in future years.

In 2012 ACCA also carried out audit monitoring on behalf of the national accountancy bodies of Botswana, Lesotho, Malawi, Swaziland, Zambia, Barbados, the Eastern Caribbean States, Guyana and Trinidad and Tobago and on behalf of the Public Accountancy Board, the national audit regulator of Jamaica.

ACCA entered into an agreement with The Bahamas Institute of Chartered Accountants (BICA) in 2009 to undertake audit monitoring on its behalf but the commencement of monitoring has been deferred until legislation is passed to grant BICA the authority to monitor firms.

ACCA also assists the Dubai Financial Services Authority (DFSA), which is the independent regulator of the Dubai International Financial Centre, in the regulation of auditors. ACCA undertakes work on an ad-hoc basis as and when instructed by the DFSA.

Global monitoring

CONTRACTING NATIONAL BODY OR REGULATOR	COUNTRY	Audit monitoring visits – number of firms		ACCA Quality Checked reviews – number of firms (note 2)		Number of firms awarded ACCA Quality Checked	
		2011	2012	2011	2012	2011	2012
ICPAC	Cyprus	36	58	36	58	1	1
BICA	Botswana	10	9	1	–	–	–
SOCAM	Malawi	8	8	2	–	–	–
ZICA	Zambia	28	2	4	–	–	–
LIA	Lesotho	–	12	–	–	–	–
SIA	Swaziland	6	6	–	–	–	–
ICATT	Trinidad	39	22	11	3	1	–
ICAB	Barbados	10	7	2	–	–	–
ICAG	Guyana	2	2	–	–	–	–
ICAEC	Eastern Caribbean States	14	14	3	3	–	–
PAB	Jamaica	–	49	–	21	–	1

Notes

- The table shows the number of ACCA audit monitoring visits and ACCA Quality Checked reviews undertaken and the number of those firms reviewed which were given an award because they were found to meet the standards expected by ACCA Quality Checked.
- In addition to the audit monitoring contract, ACCA also has a contract with ICPAC to carry out ICPAC Quality Checked reviews to all ICPAC member firms. ICPAC Quality Checked reviews are, in substance, identical to ACCA Quality Checked. The ACCA Quality Checked reviews shown above for ICPAC therefore include ICPAC Quality Checked reviews to ACCA firms and non-ACCA firms. During 2012, one firm was awarded ICPAC Quality Checked (2011: one).
- ACCA's monitoring contracts require ACCA to monitor all firms regulated by the national accountancy body or regulator over an agreed number of years, with some exceptions. The contract with ZICA was amended on 1 January 2012, to require ACCA to monitor only its seven largest firms. The contracts with ICPAK and DFSA require ACCA to conduct monitoring

ABBREVIATIONS

ICPAC	Institute of Certified Public Accountants of Cyprus
BICA	Botswana Institute of Chartered Accountants
ICPAK	Institute of Certified Public Accountants of Kenya
SOCAM	Society of Accountants in Malawi
ZICA	Zambia Institute of Chartered Accountants
LIA	Lesotho Institute of Accountants
SIA	Swaziland Institute of Accountants
ICATT	Institute of Chartered Accountants of Trinidad & Tobago
ICAB	Institute of Chartered Accountants of Barbados
ICAG	Institute of Chartered Accountants of Guyana
ICAEC	Institute of Chartered Accountants of the Eastern Caribbean
PAB	Public Accountancy Board (Jamaica)

visits to firms as and when instructed. No such instructions were received from either ICPAK or DFSA in either 2012 or 2011.

- During 2011 ACCA was appointed by the DFSA to act as its expert witness in a dispute between the DFSA and one of its regulated firms and one of its registered auditors over the application of IFRS and ISA. This work was completed in 2012.

DIRECT MONITORING

In addition to the monitoring visits undertaken under contracts with national accountancy bodies and regulators, ACCA also undertakes monitoring visits to a small sample of ACCA firms in other countries, at random and on the basis of risk. In 2012 no such visits were undertaken (three firms visited in Ghana in 2011).

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