

Monitoring requirements and global quality assurance



In applying for or renewing any ACCA certificate or licence, practitioners undertake to supply all information necessary to enable ACCA to carry out its statutory and regulatory obligations and to co-operate with its monitoring process. The details may be found in the Chartered Certified Accountants' Global Practising Regulations 2003 (GPRs). Please note that references in this factsheet to 'firms' include sole practitioners, partnerships, limited liability partnerships and limited companies.

This factsheet has no regulatory status. It is issued for guidance purposes only, and in the event of any conflict between the content of this factsheet and the content of the *ACCA Rulebook*, the latter shall at all times take precedence. Therefore, this factsheet should not be regarded by a member as a substitute for familiarising himself or herself with the appropriate regulations or, where necessary, obtaining specific advice concerning a specific situation.

INTRODUCTION – STATUTORY RECOGNITION

ACCA is:

- a Recognised Supervisory Body (RSB) and Recognised Qualifying Body (RQB) under the UK Companies Act 2006, and is able to license eligible firms (sole practitioners, partnerships and incorporated firms) to act as company auditors. It is obliged to monitor all of its Registered Auditors and to provide annual reports to the Professional Oversight Board. It is also recognised under the Irish Companies Act 1990, and enjoys similar rights and obligations in Ireland.
- a Designated Professional Body (DPB) under the Financial Services and Markets Act 2000, and is able to regulate eligible firms in the conduct of exempt regulated activities (ERAs). The extent and conduct of ERAs is monitored as part of audit and other monitoring visits.
- an Approved Professional Body (APB) under the Irish Investment Intermediaries Act 1995, and is able to grant authorisation to its firms in Ireland to conduct investment business. Authorised firms are subject to monitoring, and ACCA provides annual reports on its regulatory activities to the Central Bank of Ireland.
- a Recognised Professional Body (RPB) under the Insolvency Act 1986 and the Insolvency (Northern Ireland) Order 1989 in the UK, and is required to monitor practitioners granted insolvency licences and to report annually to the Insolvency Service.

MONITORING

Monitoring of ACCA registered auditors and insolvency practitioners is carried out by ACCA's Practice Monitoring Directorate. Practice Monitoring Directorate also carries out quality assurance reviews and these may be carried out alongside monitoring visits.

Where regulatory action may be necessary, Practice Monitoring Directorate produces reports for ACCA's Regulatory Assessors or for the Admissions and Licensing Committee. These reports may concern the issue of, removal of and placing of conditions on certificates and licences. The Regulatory Assessors deal with all cases that concern the standard of a firm's audit or insolvency work; they can place conditions on a certificate or licence but cannot withdraw it. If they decide that removal of a certificate or licence should be considered they will refer the case to the Admissions and Licensing Committee. A firm also has the right to refer a case to the Committee where it disagrees with the Regulatory Assessor's decision.

Monitoring visits are an opportunity for practising members to receive independent guidance on practice and professional matters. All of the compliance officers who carry out audit monitoring visits are qualified accountants with significant public practice experience who can therefore offer frank and relevant guidance, as well as carrying out the monitoring function. Similarly, compliance officers who carry out insolvency monitoring visits have experience of insolvency work. The monitoring process focuses on firms' compliance with their obligations and the standard of their work. The obligations attached to each certificate are detailed in the GPRs published in the *ACCA Rulebook*.

The monitoring of compliance with obligations is usually relatively straightforward, since a firm either complies with those obligations or it does not. If it does not comply with the obligations, the actions required to remedy the situation are usually clear. For example, if a firm has not obtained adequate professional indemnity insurance to comply with the regulations, the firm will be required to increase the level of cover. The monitoring of the standard of a firm's work is considered later in this factsheet.

FREQUENCY OF VISITS

Members holding practising certificates or insolvency licences and firms holding auditing certificates, exempt regulated activities registration or investment business certificates (Ireland) are subject to regular monitoring by ACCA. The monitoring cycle is risk-based and the interval between audit monitoring visits varies between two and six years. Low risk firms will be re-visited within six years, medium risk firms within four years and high risk firms within two years. For insolvency monitoring the interval between visits varies from one to three years depending on risk.

The most important risk factors are the outcomes of previous visits and the type of audit assignments firms have. Firms with public interest audits will be classed as high risk, as will those where the outcome of the previous monitoring visit was unsatisfactory. Newly registered firms will normally be regarded as medium risk and visited for the first time within four years of their initial registration. Risk is assessed after every monitoring visit and may be revised between visits if ACCA receives new information, for example if a firm takes on a public interest audit. The next monitoring visit may then be brought forward.

Wherever possible, audit and investment business monitoring will be combined in the same visit. Where firms are eligible for *ACCA Quality Checked* reviews these will be carried out alongside monitoring visits, when practicable.

DESKTOP MONITORING

In some cases firms that hold auditing or investment business certificates but who do not undertake any regulated work may be subject to desktop monitoring instead of monitoring visits. This may also apply to firms that do not hold certificates but have principals who are ACCA members.

Firms selected for desktop monitoring will be asked to complete a compliance questionnaire and to submit various documents and records to Practice Monitoring Directorate for inspection. After assessing this documentation, Practice Monitoring Directorate will consider whether a monitoring visit is necessary. In addition, a number of firms will be selected on a random basis for visits in order to confirm the accuracy of the information supplied on the compliance questionnaire. Firms that fail to supply the requested information will also be scheduled for a monitoring visit.

AUDIT AND INVESTMENT BUSINESS MONITORING VISITS

Once a firm has been selected for a monitoring visit, a mutually convenient appointment is agreed some two to eight weeks in advance. Visits are sometimes arranged at shorter notice with the firm's agreement, or where the circumstances suggest that an earlier visit is required.

The duration of the visit will depend on the number of offices, principals and clients of the firm and on whether an *ACCA Quality Checked* review is carried out alongside the monitoring visit. Many visits to sole practitioners are completed by one compliance officer within a day, or two days if an *ACCA Quality Checked* review is also carried out. However, this excludes the substantial planning, travelling and reporting time involved.

Once the visit has been arranged, the firm is sent an information sheet explaining what the visit is likely to entail and setting out the information that the firm should make available during the visit. This may include, depending on the certificates held and the structure of the firm:

- the partnership agreement or memorandum and articles of association
- examples of the firm's stationery and fee note paper
- the written arrangements for the continuity of the practice
- the firm's professional indemnity insurance policy, cover schedule, a copy of the latest proposal form, and details of any claims notified or pending
- records of continuing professional development
- signed statements from partners and staff relating to independence, confidentiality and fitness and propriety
- the firm's accounts for the last two financial years and for the period to date
- details of the largest fee for each period noted above
- commission statements for each period
- a record of fee notes issued, and an analysis of current debtors
- bank account records and bank statements, including client bank accounts
- details of standard audit programmes, checklists and audit software in use
- a list of audit clients
- details of those audit clients that are regulated by ABTA, FSA, the Solicitors Regulation Authority and similar bodies
- client files, including permanent records and correspondence files
- investment business files, records of investment business compliance reviews and of complaints received in respect of investment business advice.

Each monitoring visit consists of:

- an initial interview with the principal(s) within the framework of the practice monitoring programme (PMP)
- inspection of various practice records to confirm eligibility and compliance with the GPRs and the Code of Ethics and Conduct

- inspection of client files, including working papers for a sample of completed audits and, where applicable, a sample of investment business cases
- a final meeting to agree the findings and recommendations for improvement and confirm future action required.

Following the visit, the compliance officer will send a report to the firm detailing any deficiencies found during the visit and setting out any actions the firm must take in order to comply with auditing standards. The report will also tell the firm whether an accelerated follow up visit will be carried out. The exception to this process is where the findings of a visit are to be referred to a Regulatory Assessor or the Admissions and Licensing Committee. In such a case, a report will be made to the Regulatory Assessor or the Committee, but a draft copy will be sent to the firm before the report is considered by the Regulatory Assessor or the Committee.

All holders of practising certificates are eligible to undertake exempt regulated activities, provided that they work in an eligible firm, and the firm has requested registration with ACCA as a Designated Professional Body. All UK firms, except those authorised by the FSA, will be monitored in respect of exempt regulated activities. The monitoring will include confirming that the firm has not carried out any regulated activities that require FSA authorisation. Monitoring visits will also cover any exempt regulated activities undertaken by the firm, and the firm's compliance with the DPB Regulations.

Further information and guidance about monitoring is available on the professional standards section of ACCA's website at www.accaglobal.com/members/professional_standards

INSOLVENCY MONITORING

All insolvency licence holders who hold appointment-taker licences are monitored, irrespective of how many appointments they hold. (ACCA has no obligation to monitor non-appointment takers.) Files will be examined to test compliance with all relevant legislation, including the GPRs, and statements of insolvency practice.

The approach to monitoring insolvency practitioners in the UK, including Northern Ireland, mirrors that taken in respect of audit monitoring, as set out above. When monitoring insolvency practitioners, Practice Monitoring Directorate has regard to the Principles for Monitoring as set out by the Insolvency Service (see Appendix). These set out general principles on monitoring, together with aspects of an insolvency practitioner's work that should be examined during a monitoring visit.

Practice Monitoring Directorate operates a three year routine monitoring cycle. There is a rolling programme of monitoring visits, working on the general principle that no more than three years should elapse between monitoring visits. The actual time between visits depends on the outcome of the last monitoring visit, together with any matters identified through desktop monitoring.

Practice Monitoring Directorate undertakes desktop monitoring, using default information regarding enabling bonds, bordereaux, proven complaints and information provided by the Insolvency Practitioner Unit of the Insolvency Service.

Prior to the monitoring visit, insolvency practitioners are required to provide a written response to a pre-visit questionnaire (PVQ). The PVQ seeks information about a practitioner's systems and procedures.

The monitoring visit will commence with an initial interview with the insolvency practitioner. At this interview, the format of the monitoring visit is outlined; explanations are sought on issues arising from the PVQ and the last monitoring visit; general practice issues are raised; and a list of case files and documents required for inspection by the compliance officer is given to the insolvency practitioner.

The bulk of the monitoring visit will comprise the examination of case files. The compliance officer will examine sufficient cases to enable him or her to report accurately and fairly on the fitness and propriety of the insolvency practitioner and on the whole range of work undertaken by the practitioner. The compliance officer will also obtain information about the systems operated by the practitioner.

During the examination of case files and systems, the compliance officer will produce 'query sheets' setting out, among other matters, any potential compliance defaults, matters requiring further explanation, and further documentation required. The issues raised in the query sheets will be discussed with the insolvency practitioner. In addition, the practitioner will be given copies of the query sheets compiled during the visit so that they are aware of the issues arising from the visit.

Practice Monitoring Directorate will also verify the Insolvency practitioner's continuing eligibility to hold an insolvency licence under the GPRs and compliance with the Code of Ethics and Conduct.

At the end of the monitoring visit, an exit interview will be held. The insolvency practitioner will be made aware of the main issues arising from the visit. During this time the insolvency practitioner will usually be advised of the overall outcome of the visit, that is whether it is satisfactory or unsatisfactory. On occasions, however, if information is outstanding, the outcome will be unclear at the time of the visit so that it will not be possible to advise the practitioner.

After the visit a report is sent to the insolvency practitioner, detailing any breaches found and confirming the outcome of the visit and whether an accelerated follow up visit will be carried out. The exception to this process is where the findings of a visit are to be referred to a Regulatory Assessor or the Admissions and Licensing Committee. In these cases a report will be made to the Regulatory Assessor or Committee, rather than the firm, but draft copies will be sent to the firm before they are considered by the Regulatory Assessor or the Committee.

ACCA QUALITY CHECKED

ACCA Quality Checked is a quality assurance scheme to help ACCA member firms to enhance the value of the services they offer to their clients by applying best practice standards.

The scheme recognises firms that apply best practice by awarding an *ACCA Quality Checked* certificate. A successful firm may display the certificate and include the *ACCA Quality Checked* logo on its letterhead and in promotional literature, to demonstrate to clients and others that the firm applies best practice standards. *ACCA Quality Checked* is available to ACCA members worldwide.

The principles of the scheme

ACCA Quality Checked is based on five basic principles:

- 1 Firms should be aware of and comply with all their statutory and regulatory obligations.** This will include compliance with ACCA's regulations and Code of Ethics and Conduct and statutory obligations such as health and safety and employment legislation. ACCA members should ensure that non-member partners and staff conduct business in accordance with the fundamental principles in ACCA's Code of Ethics and Conduct. Where firms' work is subject to statutory monitoring, those firms will also need to have satisfied the monitoring process.
- 2 Firms should clearly identify all clients' needs.** This will include re-assessing the services it provides to continuing clients on an ongoing basis as well as establishing the services required by new clients. It may result in a firm declining to act for a client for ethical reasons or where the services required are beyond available resources.
- 3 Firms should maintain and document paper-based or electronic systems for ensuring timely and accurate fulfilment of client requirements.**

- 4 Firms should ensure partners and staff maintain up to date technical knowledge and skills and should provide suitable training and development for staff and exercise appropriate supervision.**
- 5 Firms should communicate effectively with clients, tax authorities and other statutory authorities, ACCA and other regulators.** This will include providing clients with sufficient, timely and accurate information to meet their needs, and informing clients of obligations or opportunities they may have been unaware of. It will cover any advertising or promotion undertaken by firms and all information they are required to supply to ACCA, tax and other statutory authorities, and other regulators, whether on their own behalf or that of their clients.

These principles underpin a more detailed set of standards and quality controls which provide further guidance to firms on what is considered best practice.

Details of the standards and quality controls can be found on ACCA's website at www.accaglobal.com/members/professional_standards

The approach to the *ACCA Quality Checked* visit

A quality assurance review examines the areas within a firm where controls would help it to meet the best practice principles set out above. It assesses the procedures a firm has in place to maintain the necessary controls. A review of the firm's files will ensure that the control procedures described by the firm work in practice. The practice reviewer will identify any weaknesses in the firm's systems, and recommend specific practical procedures the firm could adopt.

An important feature of *ACCA Quality Checked* is that it does not prescribe set procedures that a firm must follow to attain an award. For example, a sole practitioner with no staff may require only an in-tray and a simple 'to do' list to control and track the progress of each assignment and meet any deadline. A larger firm with a number of staff will need controls to monitor costs and turnaround times, supervise staff and track relevant deadlines. These will need to be more robust, formal controls. It would be as inappropriate to impose complicated formal procedures on a very small practice as it would to allow a large firm to rely on simple informal procedures. Therefore, practice reviewers will tailor recommendations to ensure that they are relevant to the size and structure of the firm visited.

More questions answered

ACCA Quality Checked reviews are carried out alongside monitoring visits, where possible; otherwise they will be conducted as stand alone visits. The visits are mandatory, but the reviews are consultative and focus on helping firms to identify weaknesses in their systems. Recommendations will be made to help firms improve their procedures and maintain a consistently high standard of service to clients while minimising their exposure to risk. Firms will not be obliged to adopt these recommendations, but *ACCA Quality Checked* will only be awarded to firms that put best practice procedures in place.

Firms are given time and encouragement to put best practice procedures in place or to strengthen their existing procedures in line with the recommendations made at a visit. Once firms have done this, they may be re-assessed and, if they meet the required standard, they will be awarded *ACCA Quality Checked*. ACCA encourages firms to use the *ACCA Quality Checked* award to promote themselves locally through the media and in their marketing campaigns. Information on how the award may be used to promote a firm is sent to everyone who is awarded *ACCA Quality Checked*, and is available on ACCA's website.

Firms that are awarded *ACCA Quality Checked* will be subject to routine reviews every six years to ensure the standards are maintained.

GLOBAL QUALITY ASSURANCE

Although ACCA's role as a statutory regulator is restricted to the UK and Ireland, it believes that its practising members wherever located, should be subject to robust regulation and participate in the *ACCA Quality Checked* scheme. Global quality assurance is designed to underpin the work of ACCA's practitioners by reassuring the public and other regulators that highest standards and best practice are being encouraged.

The aim is to:

- ensure ACCA practising members, wherever based, comply with its regulations and Code of Ethics and Conduct
- promote best practice standards
- raise awareness of quality control procedures and sources of assistance available.

ACCA practising members outside the UK and Ireland are also supervised by the national regulators of the countries in which they provide public practice services. ACCA's approach to its global quality assurance programme is, therefore, to collaborate with the national regulators. If a national regulator has a programme of regulation and monitoring in place, ACCA will not duplicate the work undertaken by the national regulator, and will only examine work not covered in the national regulator's programme.

ACCA may collaborate with national regulators either by providing assistance to them to set up regulation and monitoring systems or by offering to provide monitoring services to the national regulator. For instance, in Poland ACCA trained reviewers and provided consultancy services to the national regulator; whereas in Cyprus, ACCA carries out monitoring on behalf of the national regulator.

ACCA will only directly monitor its members in countries where there is no regulation and where there is no intention to set up a system of regulation or monitoring. In countries where ACCA decides to directly monitor its members, it will adapt its global monitoring methodology that it uses in the UK and Ireland, for this purpose.

Desk-top reviews

In respect of countries where ACCA does not directly regulate its members through monitoring visits, it carries out desk top reviews. Again, ACCA will not duplicate work undertaken by a national regulator to verify compliance with that regulator's rules and regulations, provided they are similar to ACCA's own rules and regulations.

The reviews are undertaken using a questionnaire that members must complete and return to ACCA. Members are also required to provide documentary evidence to demonstrate compliance with certain rules and regulations. The questionnaire also covers the review of general practice standards, based on *ACCA Quality Checked*.

ACCA Quality Checked

Where ACCA undertakes audit monitoring on behalf of a national regulator or decides to monitor its firms directly, it will also carry out a quality assurance review of non-audit services. Under the programme, member firms can qualify for the *ACCA Quality Checked* award if they are able to demonstrate that they follow best practice standards. They will, of course, also need to have a satisfactory outcome in respect of audit monitoring.

In Cyprus, ACCA also carries out quality assurance reviews of non-audit services on behalf of the national regulator. Firms that are eligible to call themselves 'Chartered Certified Accountants' can also qualify for the *ACCA Quality Checked* award if they qualify for the national regulator's award.

Summary

In summary, ACCA works to ensure that all of its practising members are subject to robust regulation. It works with national regulators and other professional bodies to avoid duplication and to further the public interest. The benefits of global quality assurance are:

- it promotes ACCA's qualification as a single global standard
- it provides firms with an opportunity to receive guidance from ACCA to improve its standards and, therefore, provide clients with high quality services
- it gives recognition to quality firms through accreditation.

FURTHER INFORMATION

Further information is available from the ACCA website at www.accaglobal.com/members/professional_standards

APPENDIX

PRINCIPLES FOR MONITORING OF INSOLVENCY PRACTITIONERS

1 Introduction

The Memorandum of Understanding sets out the Principles agreed between the Secretary of State and Recognised Professional Bodies able to authorise individuals as insolvency practitioners (IPs). Principle 2 of the Memorandum incorporates a requirement for each Body to monitor the practitioners it authorises. This document sets out the principles in accordance with which monitoring will take place.

2 Monitoring objective

The purpose of monitoring is to facilitate the gathering of sufficient relevant information by a Body on the conduct and performance of the practitioners it authorises to enable an informed and unbiased decision to be made as to whether a practitioner is, and continues to be, a fit and proper person to act as an insolvency practitioner

3 Responsibility for the monitoring function

- A Each Body is responsible for ensuring that the insolvency practitioners it authorises are monitored in accordance with the Principles for Monitoring. It retains that responsibility where the monitoring function or any part of it is delegated to a third party.
- B Where a Body delegates the monitoring function or any part of it to a third party, it will ensure that mechanisms exist to secure its timely notification by the third party of any serious concerns relating to the activities of a practitioner.

4 Monitoring procedures

Desktop monitoring

- A In respect of each practitioner it authorises, the Body will have in place an ongoing process of desktop monitoring by which means it will gather from both the practitioner and from sources independent of the practitioner, information relevant to the monitoring objective.

Monitoring visits

- B For each practitioner it authorises who holds at least one appointment as an insolvency officeholder, the Body will have in place, in pursuance of the monitoring objective, a scheme to undertake monitoring visits to the practitioner, to include reviews of case files. The frequency of such visits will be determined using a risk-based approach and will have regard to the following:
 - i Where the appointment is the first as an office holder authorised by the Body, the Body will decide whether or not a monitoring visit within the first 12 months of the appointment date is necessary. Where an early monitoring visit is not thought necessary the first visit will take place within three years of the appointment date.
 - ii Where the appointment is not the first as an office holder, the period elapsed since the previous monitoring visit. This period is not expected to significantly exceed three years but may, where satisfactory risk assessment measures are employed, extend to a period not exceeding six years.
 - iii Where a Body becomes aware of concerns about a practitioner's activities, howsoever they arise, it will take steps to satisfy itself that the practitioner remains fit and proper and should consider conducting a monitoring visit irrespective of the time elapsed since the last visit.

- C Where a practitioner holds no appointments as an insolvency officeholder and has not done so in a specified period, a monitoring visit will be at the discretion of the Body. The specified period will begin either on the date of the issue of authorisation, or the date of the previous monitoring visit, whichever is later, and it will end either on the day immediately before the day of the practitioner's appointment as an insolvency office-holder or, in the absence of that event, on such date as the Body considers appropriate.

5 Key monitoring issues

Compliance

- A The Body will take reasonable steps in seeking to confirm satisfactory levels of compliance on the part of the practitioner with all relevant aspects of insolvency law and practice, and other legislation that may impact upon an individual whilst acting as an insolvency practitioner. Reference to insolvency law and practice includes but is not limited to Statements of Insolvency Practice; the Ethical Guide; prevailing statutory and common law; the Body's byelaws, rules and regulations, and continuing professional education requirements.

Professional competence

- B The following constitute matters that may be examined in seeking to establish a practitioner's professional competence. Other matters may be examined as the Body sees fit.
 - i The systems and controls employed by the practitioner to ensure the proper conduct of work undertaken.
 - ii The ability to undertake work associated with appointments. This includes but is not limited to an examination of the facilities available to the practitioner, and the competence and suitability of partners, fellow principals, staff and sub contractors, and the suitability of professional advisers, agents, and contractors.
 - iii The level of control exercised over cases where the practitioner is office-holder, including joint appointments.
 - iv The financial systems employed by the practitioner; including a check on the way in which remuneration and disbursements are authorised and drawn, and, receipts and payments are handled and accounted for.
 - v Whether or not there are regular occurrences of undue or unwarranted delays in dealing with the officeholder's duties or with correspondence.
 - vi The procedures for and manner of dealing with complaints.
 - vii Influences that might affect the honesty, integrity, objectivity, or impartiality of the practitioner whether or not arising as a consequence of holding an insolvency office. Such influences include but are not limited to financial, personal, professional, or those exerted by employers, employees, contracting parties or significant work providers.

6 Practices with authorisations from more than one body

Where a practice has authorisations from more than one Body, the following will apply:

- A Wherever practical the Bodies or their monitoring agents should liaise, with a view to undertaking a combined monitoring visit.
- B If a combined monitoring visit does not take place and a visit to one practitioner highlights serious shortcomings in the work of any other practitioner or practitioners authorised by a different Body or Bodies, those shortcomings should be referred in writing and in a timely manner to the relevant Body or Bodies. This principle is to be followed irrespective of the capacity of those not the subject of the monitoring visit.

7 The monitoring visit report

- A On completion of a monitoring visit to a practitioner the Body is responsible for ensuring the timely production of a detailed written report (the Monitoring Visit Report). The Report will set out the scope of the monitoring visit, the extent to which the practitioner's compliance with relevant insolvency law and practice, and other legislation has been tested and achieved; the extent to which a practitioner's professional competence has been tested and achieved; and any other information the Body deems appropriate.
- B On completion of the monitoring visit, a copy of the Monitoring Visit Report will be provided to the insolvency practitioner within a reasonable time-scale.