

GUIDANCE FACTSHEET

MONITORING REQUIREMENTS AND GLOBAL QUALITY ASSURANCE

The Chartered Certified Accountants' Global Practising Regulations 2003 (GPRs) and Chartered Certified Accountants' Designated Professional Body Regulations (DPBRs) set out the monitoring requirements for holders of ACCA certificates and licences and detail the continuing obligations placed on certificate/licence holders. The monitoring and compliance requirements are contained in GPR 14, and the corresponding Annexes to the GPRs, DPBR 9 and DPBR 10. The GPRs and DPBRs are published in the *ACCA Rulebook* at accaglobal.com/rulebook.

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 themselves with the appropriate regulations or, where necessary, obtaining specific advice concerning a specific situation.

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INTRODUCTION

In applying for, or renewing, any ACCA certificate, practitioners undertake to supply all information necessary to enable ACCA to carry out its statutory and regulatory obligations and to cooperate with its monitoring process.

For the purposes of this factsheet, **certificate** means a practising certificate and/or any other certificate, licence or authorisation issued by ACCA. The terms **firm** and **practice**, when used in this factsheet, mean a sole practitioner, partnership, or body corporate, including a limited liability partnership. The term **principal** means an individual who is a sole proprietor, a salaried or equity partner of a partnership, a statutory, de facto or shadow director of a company, or a member (designated or non-designated) of a limited liability partnership, or any individual who is held out as being a partner, company director or member.

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 (members and non-members, sole practitioners, partnerships and incorporated firms) to act as statutory auditors and statutory audit firms in the United Kingdom. It is obliged to monitor all of its Registered Auditors and to provide annual reports to the Financial Reporting Council (FRC).
- a Recognised Accountancy Body (RAB) under the Irish Companies Act 2014 and is able to license eligible firms (sole practitioners, partnerships and incorporated firms) to act as statutory auditors and statutory audit firms and to carry out audit and the assurance of sustainability reporting in the Republic of Ireland. It is obliged to monitor all of its Registered Auditors and to provide annual reports to the Irish Auditing and Accounting Supervisory Authority (IAASA).
- 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) in the United Kingdom. The extent and conduct of ERAs is monitored as part of audit and other monitoring reviews. It is obliged to monitor all ERAs and to provide annual reports to the Financial Conduct Authority (FCA).

MONITORING

Monitoring of ACCA Registered Auditors is carried out by ACCA's Compliance team within the Practice Regulation Department.

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

Monitoring reviews 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 reviews are qualified accountants with significant public practice experience who can therefore offer frank and relevant

guidance, as well as carrying out the monitoring function. 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 and DPBRs 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 REVIEWS

Members holding practising certificates and firms holding auditing certificates and exempt regulated activities registration are subject to regular monitoring by ACCA. The monitoring cycle is risk-based and the interval between audit monitoring reviews varies between two and six years. Low risk firms will be re-reviewed within six years, medium risk firms within four years, and high-risk firms within two years.

The most important risk factors are the outcomes of previous reviews 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 review was unsatisfactory. Newly registered firms will normally be regarded as medium risk and monitored for the first time within 12 months of their initial registration. Risk is assessed after every monitoring review and may be revised between reviews if ACCA receives new information, for example if a firm takes on a public interest audit. The next monitoring review may then be brought forward.

Wherever possible, all associated firms regardless of registration will be combined in the same review.

DESKTOP MONITORING

In some cases, firms that hold auditing certificates but do not undertake any regulated work may be subject to desktop monitoring instead of monitoring reviews. 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 the Compliance team for inspection.

AUDIT MONITORING REVIEWS

ACCA has a blended monitoring approach whereby some audit monitoring will be undertaken remotely instead of onsite, depending on various criteria being met.

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

The duration of the review will depend on the number of offices, associated firms, principals and clients of the firm as well as the format of the review itself. All reviews require substantial planning, detailed file reviews and comprehensive reporting time. Once the review has been arranged, the firm is sent an

information sheet explaining what the review is likely to entail and setting out the information that the firm should make available either upfront or during the review.

Depending on the certificates held and the structure of the firm, this may include:

- the partnership agreement or memorandum and articles of association
- examples of the firm's stationery and fee notepaper
- 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
- an example of an engagement letter for each of a corporate and a non-corporate client. This should include any attachments to the engagement letters such as Terms & Conditions and the firm's privacy notice.
- details of standard audit programmes, checklists and audit software in use
- a list of audit clients, including total fees split between audit and non-audit fees
- details of those audit clients that are regulated by ABTA, FCA, the Solicitors Regulation Authority and similar bodies
- client files, including permanent records and correspondence files.

Each monitoring review consists of:

- an initial interview with the principal(s) within the framework of the practice monitoring programme (PMP)
- an inspection of various practice records to confirm eligibility and compliance with the GPRs and the Code of Ethics and Conduct
- an 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 review, the compliance officer will send a report to the firm setting out their findings and detailing any deficiencies found during the review. The firm is required to complete an action plan setting out the root causes of these findings and how it intends to address them. Once the action plan is finalised, ACCA will determine the overall outcome of the review; the outcome is potentially subject to review by a committee independent of the Compliance team. The firm will be notified of the outcome, together with the timing of the next monitoring review, once this process is concluded.

The exception to this process is where the findings of a review 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 statutory auditors in Ireland are eligible to carry out the assurance of sustainability reporting in Ireland, provided that they are authorised as a sustainability assurance service provider. All Irish firms approved to

carry out the assurance of sustainability reporting will be monitored in respect of sustainability assurance activities.

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

GLOBAL QUALITY ASSURANCE

ACCA's global quality assurance initiative is designed to ensure our practising members conform to international standards, with a view to protecting the public interest.

The primary responsibility of regulating and monitoring regulated work, including audit, of members outside the UK and Ireland lies with the national regulator of the countries in which members are based. We have no legal basis for intervening in the regulatory processes of national regulators. Such intervention would be perceived by many national regulators as an unwarranted and unwelcome intrusion into the national matters that are their sole responsibility.

ACCA has, therefore, adopted a collaborative approach to regulation and monitoring of our practising members based outside the UK and Ireland.

A COLLABORATIVE APPROACH TO REGULATION AND MONITORING

In a number of countries, ACCA has provided assistance to the national regulators to set up regulation and monitoring systems, where required. We continue to provide assistance, for instance through organising conferences and workshops, and we also participate in donor-funded projects designed to provide regulatory assistance to national regulators.

In most countries, members who conduct audits are subjected to audit monitoring reviews undertaken by the national regulators. Where this is not the case, ACCA offers to undertake monitoring reviews under contract on behalf of national regulators, particularly in those countries where there are a significant number of ACCA practising members.

ACCA is appointed by the national professional accounting institutes of Cyprus, Bahamas, Barbados, Eastern Caribbean, Guyana and Trinidad and Tobago, and the statutory audit regulators of Jamaica and Malawi, to undertake audit monitoring reviews on their behalf. In Cyprus, it also undertakes anti-money laundering reviews, on behalf of the national institute. Apart from enhancing ACCA's reputation as a global body for professional accountants, such collaboration ensures that ACCA members who are also members of these national regulators are subjected to effective monitoring and regulation.

MONITORING REVIEWS

ACCA has adapted the tried and tested audit monitoring methodology it applies in the UK and Ireland for the work it carries out on behalf of national regulators. The monitoring review is carried out in three phases – opening meeting to discuss and assess the firm's system of quality management (ISQM1); followed by audit file reviews to assess compliance with ISAs; and a closing meeting to discuss and agree the findings, explain and communicate the conclusion, and provide guidance on any improvements required.

When assessing the outcome of an audit file, the concept of 'reasonable assurance' that financial statements are free from material misstatement as defined in the ISAs is applied. This involves considering whether there is a significant risk that the financial statements could contain one or more undetected material misstatement as a result of deficiencies found in the audit work. The outcome on an audit file is assessed as unsatisfactory if a significant deficiency is found in at least one significant risk area.

The overall outcome of a monitoring review is assessed as satisfactory if the outcomes on half or more audit files reviewed are satisfactory, provided that none of any unsatisfactory audit files are in respect of public interest entities or larger clients; or none of the files reviewed show little evidence that an audit had been performed. The overall outcome is also assessed as unsatisfactory if the firm is found to be in serious breach of the code of ethics, irrespective of the outcomes of audit file reviews.

The findings and the conclusion of a monitoring review, together with guidance on any improvements required, are set out in a report which is initially issued to the firm. The firm is required to provide its response to the report and an action plan to remedy the deficiencies, within an agreed timeframe.

The report is then submitted to the respective national regulator, together with the firm's response, action plan, and the reviewer's comments and recommendation on any action required.

Guidance on any improvements required in the quality of audit work is initially provided at the closing meeting of the monitoring review. Even if the overall outcome on the conduct of audit work is satisfactory, the firm is still required to provide details of the action it is taking to rectify any (less significant) deficiencies identified in the report to further improve its standard of audit work.

If the overall outcome is unsatisfactory, the firm is required to provide a detailed action plan in a prescribed form, using a template designed by us. Guidance on how to complete the template is provided at the closing meeting. The template, together with written instructions on how to complete it, are also enclosed when the report is issued to the firm.

REGULATORY ACTION

As the national institutes or regulators are the statutory audit regulator, they have the primary responsibility for taking regulatory action. ACCA is nevertheless actively engaged in the provision of assistance to national regulators to set up appropriate regulatory processes to deal with issues identified at monitoring reviews and take effective action.

However, if a member is subjected to disciplinary action by a national institute or regulator for any reasons, including those arising from any findings of a monitoring review, ACCA will consider what action it should take against the member. Under our Bye-laws, a member disciplined by another professional body or regulator is rendered liable to disciplinary action by ACCA.

FURTHER INFORMATION

Further information is available on the ACCA website at www.accaglobal.com. Members and firms can find out more information and guidance about monitoring on the [Practice monitoring](#) webpage.