



REGULATION AND COMPLIANCE  
ANNUAL REVIEW 2011

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## STATEMENT BY THE CHAIRMAN OF THE REGULATION AND COMPLIANCE BOARD

“Building Trust” is a key element of the ICAS strategy Building a Professional Community. Recognition of the public interest is fundamental to our approach and our robust regulatory regime is designed to promote the highest standards of probity and professional conduct. To serve the public interest requires that we retain the confidence of the public in the profession and that we deliver those services that society expects of Members and our regulated Firms. Our regulatory functions benefit from extensive and high-calibre public interest member representation. This ensures that our members are subject to fair, balanced, but rigorous regulation and in turn provides the public with confidence that Chartered Accountants are highly skilled professionals who apply the highest standards of ethics and professional behaviour and competency.

During 2011 we commissioned independent research into the meaning of self-regulation in today’s environment and the effectiveness of our regulatory approach. The public interest features prominently in the research outcomes and in 2012 we will be increasing our commitment to our existing public interest member representation, with increased transparency and professional training.

As a further mean of enhancing our regulatory approach under revised Rules and Regulations to be considered by the ICAS membership in Special General Meeting in June 2012, the Board will assume increased responsibilities and operational independence.

At the heart of our professional community is the importance of professional ethics. Each and every Chartered Accountant is expected to conduct him or herself in a manner that maintains and enhances their own professional reputation and that of their fellow members. In 2011 we developed key principles which we believe distinguish the profession and which from 1 January 2012 onwards, each Chartered Accountant will be expected to adopt on admission and affirm annually. The principles recognise the importance of high professional and ethical standards, regard for the public interest and a commitment to lifelong learning.

Another key element of our strategy is “Relevance” in this context with respect to our community of firms and individuals who are subject to enhanced levels of regulation due to their engagement in public practice and the regulated areas (audit, insolvency and Designated Professional Body). We have recently concluded a comprehensive review of these areas of practice and our ability to remain relevant to these communities (and to small and medium sized firms in particular), which now forms part of a wider ICAS strategy.

Finally, 2011 marked the start of a period of significant regulatory change for the accountancy profession and the relevant public oversight bodies. The Government consulted on a number of proposed regulatory reforms relating to statutory audit and insolvency. ICAS is proud of its reputation as a strong and independently-minded regulator and as a Recognised Supervisory Body for statutory audit services and a Recognised Professional Body for insolvency services. Throughout 2012 we will continue to engage with the Insolvency Service and the Financial Reporting Council in relation to the development and implementation of appropriate regulatory reform, including the FRC's reform of the Accountancy and Actuarial Discipline Board. Many of these issues will be reported further in the Board's 2012 Report.

This review is intended to set out the way in which ICAS has executed its regulatory responsibilities in 2011. For further information go to [icas.org.uk](http://icas.org.uk). We would welcome feedback from our members, member firms and from the public we serve.

**Graeme Bissett**

## PUBLIC INTEREST MEMBER REVIEW

As a recently appointed public interest member of the Regulation and Compliance Board I am delighted to have been asked to contribute to this Report. Since joining the Board it has become very clear that the role of public interest members in the work of ICAS has become increasingly important. The Statement of Purpose contained in the ICAS Strategic Plan begins with the statement:

'ICAS exists to uphold the public interest'

This reflects a wider trend within professional regulatory bodies to ensure there is effective oversight from lay members on key Boards and Committees. ICAS has continued to support this strategic direction and one of the Regulation and Compliance Board's key initiatives over the last twelve months has been to review and develop the role of all ICAS public interest members. A number of changes will be implemented during 2012.

ICAS has a high level of public interest member representation. My public interest member colleagues on the Regulation and Compliance Board are Sue Roff and Rhona Brankin. In addition the regulatory committees which carry out the operational functions, that is the Audit Registration Committee, Insolvency Permit Committee, Public Practice Committee and CPD Regulatory Committee, each have three public interest members whilst the Investigation and Professional Conduct Enforcement Committee has an equal representation of nine qualified and nine public interest members.

In 2010 this section of the report was written by Sue Roff and she noted that all public interest members had been asked to conduct a review of the regulatory function. This work highlighted a number of action points for 2011 which are updated in this report.

- **Plain English Review**
- **Minimising delay**
- **Human rights review**
- **Monitoring and evaluating existing approaches to regulation**

### **Plain English Review**

During 2011, ICAS has re-drafted its Rules and Regulations in order to present a constitutional framework which is clear, concise and accessible. The Regulation and Compliance Board and its committees have been engaged in all relevant aspects of the project, including the drafting of any changes to relevant Regulations. In addition, the investigation function has substantively revised all complaint literature so as to improve the way in which ICAS communicates with its members and the public. This is an important initiative, which will be externally assessed, and is intended to achieve greater transparency and accessibility to the ICAS complaints procedure.

The ICAS website will almost certainly continue to remain the first source of information for many Members and the public. During 2011, ICAS launched a new website with enhanced functionality and the Regulation and Compliance Board will continue to monitor the development of the regulatory content and digital engagement during 2012.

### **Minimising Delay**

I am pleased to report that the Investigation and Professional Conduct Enforcement Committee has made considerable improvements to its procedures in order to minimise the length of time which cases are under investigation. In recent months, the committee has reduced the percentage of cases under consideration which are more than twelve months old from six cases to just two cases. The nature of the cases under review will result in a small number of cases taking more than 12 months, either due to their complexity or the co-operation of the parties, but considerable improvements have been made by the Committee to bring the number of cases of such duration to within 5% of the function's caseload.

### **Human Rights Review**

The constitutional review work which was undertaken by ICAS during 2011 has included a human rights compliance review, with external legal advice being obtained on the Rules and Regulations in relation to each of the regulatory areas. Whilst I have had no direct involvement in that review, the existing procedures have been deemed HR compliant and I was pleased to note that the responsible working group had a public interest member chair.

### **Monitoring and evaluating existing approaches to regulation**

During the year, the Board undertook an independent review of the effectiveness of the ICAS approach to regulation and interviewed a number of stakeholders and users of accountancy services. Many of the Report recommendations related to the role of public interest members and have strengthened the Board's strategic focus on this area for the months ahead. An action plan for 2012 has been developed, with specific timescales and assigned responsibilities. This will be reported on regularly to the Board during the year and updated in the 2012 Report of the Regulation and Compliance Board.

It was evident that, during 2011 ICAS continued to support and promote the principles and values inherent in acting in the public interest in discharging its responsibilities. This is essential to ensure that decision making and policy development across the full range of ICAS work takes advantage of the independent expertise available from public interest members. As these members are drawn from outside the accountancy profession they can clearly demonstrate transparency, fairness and objectivity in all its activities.

### **Strategic Issues**

In conclusion I would like to comment briefly on the strategic issues which ICAS has addressed during 2011 and which have informed the planning process for 2012. As a public interest member I have been greatly impressed by the commitment, enthusiasm and professionalism of my Board colleagues, and the executive and management team. The Strategic Plan was founded on the concept of professionalism and the need to embed the concept of acting in the public interest in the fabric of the business of ICAS. Points which are related to the role of the CA and the services offered to members during 2011 will be covered elsewhere in this report.

However I have seen ICAS turn the aspirations of the Strategic Plan for 2011 into real action and tangible progress. It has been a year of considerable challenge and change, with the Regulation and Compliance Board playing a major part in achieving the strategic objectives and business plan for the year. These have included responding to turbulent economic and market forces and the reality of a changing political

environment. This has been delivered whilst recognising an expectation for greater openness, transparency and accountability. The move towards a more technologically driven and global world has had a significant impact on ICAS. In 2012 the regulatory framework will change to give the new Regulation Board a more formal and explicit role within ICAS and the 2012 report will return to these central strategic themes.

**Clare Dodgson**

**Public Interest Member – Regulation and Compliance Board**

## 2011 OVERVIEW

### Regulatory Policy

The regulatory landscape is undergoing a period of significant change and increasing resource is being devoted by ICAS to regulatory policy to ensure effective representation of the interests of the profession and the public interest.

### 2011 Highlights include:-

- **The consultation by the Department for Business Innovation and Skills in relation to the future regulation of insolvency.** ICAS and the other Recognised Professional Bodies for insolvency in the UK are working together with The Insolvency Service to deliver an improved complaints handling process which delivers consistency and enhanced independence. The ICAS complaints process has extensive public interest member engagement and we strongly support the common adoption of this approach. A copy of the ICAS response is available at <http://www.bis.gov.uk/insolvency/Consultations>
- **The joint consultation by the Financial Reporting Council (FRC) and the Department for Business Innovation and Skills on the reform of the FRC.** A copy of the ICAS response is available at <http://www.frc.org.uk>. The reform proposals will be developed during 2012
- **Legal Services and Alternative Business Structures.** ICAS is an Approved Regulator under the Legal Services Act 2007 for reserved probate activities only. Throughout 2011 we have been engaged with the Scottish Government on the development of the regulatory arrangements under the Legal Services (Scotland) Act 2010, which will in turn influence our prospective regulatory approach in relation to both probate activities and alternative business structures.

### Public Interest Discipline

The independent investigation and discipline of public interest cases continues to be a regulatory priority for ICAS. During 2011, one new case was referred by ICAS to the Accountancy and Actuarial Discipline Board (AADB), the body responsible for the independent investigation and discipline of cases involving accountants and actuaries which raise serious matters affecting the public interest in the UK.

As at 31 December 2011, ICAS had four cases under investigation by the AADB and for 2012 we have therefore continued to raise a levy on all active members to ensure the proper funding of the public interest discipline cases.

As a Participant Body, we maintain a close interest in the development of the AADB within the context of the FRC's reform.

## 2011 KEY ACHIEVEMENTS

### Public Practice and Regulated Areas

Every Chartered Accountant who is a principal in a firm which provide accountancy services to the public is required to hold a Practising Certificate, which is issued by ICAS, and is also subject to regular quality assurance visits under the ICAS Quality Review arrangements.

ICAS has statutory responsibilities and operates dedicated licensing, regulatory and monitoring arrangements in relation to each of the following “Regulated Areas” (so called because there are further externally imposed regulatory requirements attaching to each type of work):-

- audit
- insolvency
- investment business (ICAS is a Designated Professional Body under the Financial Services and Markets Act 2000, which is often referred to as the ‘DPB’ licence).

In 2011 all inspection targets in the regulated areas were met or exceeded by ICAS monitoring staff.

	Target	Actual
Quality Review	180	191
Insolvency monitoring visits to ICAS licensed Insolvency Practitioners	41	41
Audit Monitoring visits to ICAS audit registered firms	50	56

2011 was the first full year of the third cycle of Quality Review, which saw the introduction of an enhanced risk based approach and a widening of the scope of practice work subject to review. In addition to issuing various practice help sheets to encourage compliance, the Quality Review team also monitored the follow up action from previous visits which had resulted in systemic or repeat findings. Quality Review will continue to target the known or arising risk areas in order to ensure that entitlement to use the name of Chartered Accountant and to hold a Practising Certificate is governed by fitness and quality.

The monitoring teams were also involved in various initiatives to educate and improve compliance in the regulated areas, including:

- Issue of helpsheets to support members and firms;
- Provision of training courses;
- Programme of follow up and shortened cycle visits to practitioners and firms requiring improvements to compliance levels.

Such is the reputation of the monitoring functions, that the teams were also involved in various monitoring related projects for other bodies in the United Kingdom and overseas.

### Continuing Professional Development

Continuing Professional Development (CPD) remains a key element of the ICAS strategy to build a professional community. It is important that each member undertakes relevant CPD to maintain and enhance their expertise and professional standards – those standards that the public has a right to expect from a Chartered Accountant.

In March 2011, the ICAS Council approved the setting up of a CPD Regulatory Committee in order to implement the ICAS CPD Strategy and provide a dedicated regulatory structure for the promotion and oversight of the professional commitment to lifelong learning, and monitoring of compliance with the requirements of CPD.

### **Investigations and Discipline**

During 2011, the investigation function undertook a review of all complaints related literature and communications in order to ensure that ICAS provides clear and consistent advice about the process for members and the public. The function also initiated independent feedback on the complaints process from users and members. Initial feedback was submitted to the Investigation and Professional Conduct Enforcement Committee (IPCEC) in June 2011 and a more substantive independent research report is expected in early 2012.

ICAS has over 19,000 members and in 2011 ICAS received 134 conduct related complaints, of which 100 were dismissed at a preliminary stage after thorough examination on the basis that they did not provide sufficient grounds for further investigation. All complaints which are dismissed at this early stage were considered by a Review Panel with two thirds public interest member representation. The remaining 34 cases were referred to the Investigation and Professional Conduct Enforcement Committee for further enquiries.

Of the new complaints received during 2011, there were a number of common themes, including concerns over ethical standards in the context of cases which involved public practice and the regulated areas of insolvency and audit. Other complaints related to tax, CPD compliance and allegations of fraud. Many of the cases under investigation are highly complex and require a blend of forensic accountancy and legal input. ICAS has ensured, and will continue to do so, that there is adequate professionally qualified resource to maintain the quality and standards which members and the public have come to expect.

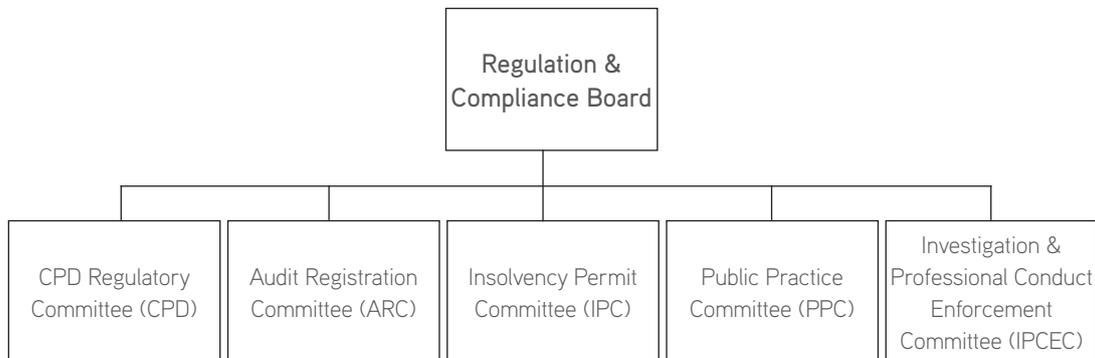
Where IPCEC determines that a member is liable for disciplinary action, a formal complaint will in certain instances be submitted for hearing before a Discipline Tribunal. Three formal hearings took place in 2011, with details of any publicity available on the ICAS Discipline Tribunal Website. (See [tribunals.icas.org.uk](http://tribunals.icas.org.uk)) A further five complaints are scheduled for hearing in 2012.

## 2011 GOVERNANCE AND REGULATORY STRUCTURE

The Regulation and Compliance Board remit is to formulate, advocate, implement and monitor policies and standards designed to achieve the strategic aims and objectives set by Council in relation to ethics, professional conduct and compliance with regulatory standards. The Board reported to Council for the duration of 2011 (a diagram of the constitutional framework is set out below). New constitutional arrangements will be presented to the membership in June 2012 which, if approved, will rename the Board as the Regulation Board and provide enhanced operational independence from Council.

The regulatory functions are carried out by the following committees:

- Audit Registration Committee
- Insolvency Permit Committee
- Investigation and Professional Conduct Enforcement Committee
- Public Practice Committee
- CPD Regulatory Committee



The Discipline and Appeal Panels operate independently of both the Regulation and Compliance Board and Council.

The Public Practice Committee is responsible for issuing Practising Certificates, and the oversight of compliance with the public practice requirements.

Members engaged in public practice must:

- hold a practicing certificate which is required to be renewed annually,
- hold professional indemnity insurance,
- comply with CPD requirements, and
- be subject to the Quality Review programme.

The CPD Regulatory Committee is responsible for the implementation of regulatory policy in relation to CPD and monitoring compliance with the ICAS requirements and International Education Standard 7.

### **Audit Registration Committee and the Insolvency Permit Committee**

ICAS has the authority to license qualifying firms to carry out audit and qualifying members and regulated non-members to conduct insolvency work.

Under the Companies Act, any individual or firm signing audit reports must be a Registered Auditor registered with a Recognised Supervisory Body. ICAS is a Recognised Supervisory Body for the purposes of the registration and supervision of registered auditors.

All insolvency practitioners in the UK require to be licensed by a Recognised Professional Body or by the Insolvency Service. ICAS is a Recognised Professional Body and therefore licenses ICAS members as insolvency practitioners, and also certain non-members who have met the examination, competence and other license requirements.

ICAS devotes significant resource and technical expertise to monitoring the conduct of these businesses to ensure that the work is carried out to a high professional and technical standard.

The Professional Oversight Board of the Financial Reporting Council and The Insolvency Service (which is part of the Department for Business Innovation and Skills) provide public oversight of ICAS regulation.

## **REGULATION AND COMPLIANCE BOARD**

During 2011 the membership of the Regulation and Compliance Board was as follows:

**Chairman:** Graeme Bissett CA

**Secretary:** Michelle Mullen LLB (Hons) DipLP (appointed Secretary August 2011)  
Vivienne Muir LLB (Hons) DipLP (Retired August 2011)

**Members:**

Gillian Burns MA CA  
Jeremy Chittleburgh BSc CA (retired December 2011)  
Laurie Manson MA (Hons) CA FABRP  
Stuart MacDonald (joined December 2011)  
Ian Robertson CA CCMl

**Members Appointed by Council:**

John Sharkey BAcc (Hons) CA MBA  
Graeme Sheils BA CA  
Jacqueline Thomson CA  
Ronnie Wilson CA

**Public Interest Members:**

Ruthven Gemmell (retired from Board February 2011)  
Sue Roff  
Clare Dodgson (appointed May 2011)  
Rhona Brankin (appointed August 2011)

**ICAS Representatives:**

Lesley Byrne BAcc CA  
Charlotte Barbour MA CA CTA  
Robert Mudge MA (Hons) LLB Dip LP



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