

THE  
INSTITUTE OF  
CHARTERED  
ACCOUNTANTS  
OF SCOTLAND



# Guide:

## When is a Practising Certificate required?

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# Contents

- Introduction* ..... 1
- The regulatory requirements* ..... 2
- Are accountancy or related services being provided?* ..... 2
- Examples of when a Chartered Accountant needs a practising certificate*..... 3
- Services to charities, non-profit making organisations, and sporting organisations* ..... 5
- Further information* ..... 5
- Other guidance*..... 6

## Guide: When is a Practising Certificate required?

Chartered Accountants undertake a wide variety of activities, some of which require a practising certificate, and this guide is designed to assist members who are considering whether they are in practice or not. Each member who is in practice requires a practising certificate, which is issued for a calendar year and has to be applied for annually. There is an annual fee. With a practising certificate comes the support and expertise of the Institute from the members' services team and from the monitoring teams whose remit is to assist and promote quality services – to ensure that all Chartered Accountants are, and continue to be, Clearly Ahead. There is also the CA Practitioners Service to which members may subscribe for further practical and technical support.

### Introduction

The Institute's Practitioner Certification Committee is responsible for deciding whether a member is in practice and needs a practising certificate; however, it rests with the member to make an initial consideration about whether to apply to the Committee for such a decision. This guide outlines the relevant regulatory requirements but it is not definitive; **if in doubt contact the Institute**.

Taken together, there are two key features that point towards a member needing a practising certificate. These are whether:

- the member is paid for providing accountancy or related services on his or her own account or through a legal entity in which the member has an ownership stake, and
- the member requires Indemnity Insurance because he or she is liable for the work?

The answer to this may be simple but for others further consideration may be required before reaching a decision. If the answer is 'yes', it is probable that the member is 'in practice', requires a practising certificate, needs to comply with Professional Indemnity Insurance (PII) requirements and be within the Quality Review scheme. The Institute's rules require any member in practice to have a practising certificate; practising without a practising certificate may result in disciplinary action.

This guide includes the following:

- the regulatory requirements
- a list of what is and is not considered to be accountancy services
- examples of various activities and whether these constitute being 'in practice'
- Services to charities, non- profit making organisations, and sporting organisations, and
- sources of further information.

The Institute's rules and regulations need to be adhered to by members. The following guidance is to assist members to comply with the regulations but if in doubt in relation to the need for a practising certificate each member should consider whether their fellow members and the public would view the activities as being in practice, offering accountancy services to the public. Being in practice can vary enormously but what unites each and every member of ICAS is a collective responsibility to maintain their professional reputation along with that of fellow members.

## The Regulatory Requirements

It is expected that every Chartered Accountant will adopt the following principles:

- each member will conduct him or herself with integrity, honesty, objectivity and high ethical standards
- each member will have due regard to the public interest in his or her role as a CA
- each member agrees to abide by the Institute's rules, regulations and Code of Ethics, and
- each member will give due consideration to the guidance and recommended good practice issued by the Institute.

In terms of Rule 16 (of the Institute's Rules) members may not engage in practice in the EU unless they hold, or are specifically exempt from holding, a practising certificate.

Under Rule 16, Council has the authority to make practice regulations; these delegate responsibility to the Practitioner Certification Committee and state the basis on which practising certificates will be granted. Note that the grant of a practising certificate does not of itself convey any right to practice in the UK in the reserved areas of audit, insolvency, or investment business.

Practice is the provision of services, including accounting and related services, to persons other than his or her employer for a fee, as defined in the ICAS rules.

## Are accountancy or related services being provided?

A practising certificate is required by a member who provides accountancy or related services. A practising certificate is also required by a member even though he or she may not directly provide such services, if the member is a principal of an entity that provides them. So, what are accountancy or related services?

The following list is not definitive but it does include activities most commonly considered by the Practitioner Certification Committee to be within accountancy services:

- bookkeeping (ie, the entry of transactions into the accounting records)
- preparation of management or financial accounts
- external audit and assurance services
- internal audit of accounting and internal control systems
- advice or consultancy on accounting and financial reporting systems
- payroll services
- dealing with personal/business tax returns
- providing tax advice
- representing a client in a tax situation (e.g. client is having an investigation and needs someone to deal with the tax authorities)
- investment business advice undertaken under a licence from a Designated Professional Body
- preparation of cash flows and budgets
- business funding advice
- due diligence (i.e. investigations into the accounting or financial aspects of a transaction such as a company take over)
- preparation of business plans
- management consulting on accountancy activities
- accepting insolvency appointments
- debt counselling
- compliance services (including file reviews) supplied to firms of accountants
- valuing incorporated and unincorporated businesses, shares and related instruments, and intangible assets
- forensic accounting.

These services are not normally regarded by the Practitioner Certification Committee as accountancy services:

- investment business activities conducted under FSA authorisation
- acting as an unpaid trustee in a personal capacity
- training services to accounting firms or students
- business funding advice where this only involves seeking/negotiating the source of funds
- management consulting on non-accounting matters
- computer hardware and software installation
- computer training.

## Examples of when a Chartered Accountant needs a practising certificate

Broadly speaking, if a Chartered Accountant provides accountancy or related services to someone other than his or her employer and is paid for it, he or she is in practice. Working for someone on a sub-contract basis is considered to be 'employed' and would not require a practising certificate. 'Sub-contract' means that the firm for which the member is working assumes all the risks associated with the work in the same way as it would for its employees.

A Chartered Accountant accepting work in his or her own name, or that of an entity in which he or she is a proprietor or partner, would be 'in practice'. There is an exception where a Chartered Accountant undertakes certain work for non-profit making organisations.

Examples of when a Chartered Accountant is, or is not, in practice are shown below.

*A Chartered Accountant is employed by an accountancy firm and is a Statutory Auditor.*

In general, an employee does not require a practising certificate; however, it is a requirement of the Audit Regulations that each Statutory Auditor has a practising certificate. (Audit Regulations, 4.02)

*A Chartered Accountant is an employee in a practice that undertakes insolvency work.*

In general, an employee does not require a practising certificate but if a CA wishes to accept any insolvency appointment in his or her name an Insolvency Permit is required. A requirement of the Insolvency Permit bye-laws (Bye-law 14) is that the applicant holds a practising certificate.

*A Chartered Accountant is a tax expert and acts as a consultant to firms of Chartered Accountants.*

Any member who has a principal/client relationship with other parties whether this is with individuals or with firms, requires a practising certificate. Features of such a relationship include accepting work in the member's own name and being responsible for the advice given.

*A Chartered Accountant works from home completing tax and/or bookkeeping services for a firm of Chartered Accountants.*

If a member undertakes work on a sub-contracting basis, then a practising certificate is not required. 'Sub contracting' means that the firm for which the work is being conducted assumes all the risks associated with the work and there is a written contract detailing the commercial arrangements between the parties and in which the sub contractor is indemnified by the firm.

*A Chartered Accountant works as a finance manager to a number of businesses on a contract basis. In each contract the Chartered Accountant effectively operates as a temporary employee.*

Each contract needs to be considered separately and examined to decide whether the CA is a temporary or part time employee and remunerated under PAYE, in which case a practising certificate would not be required. However, if some or all of the contracts are not paid subject to PAYE a practising certificate may be required.

*A Chartered Accountant is a partner of a firm where his role is restricted to responsibility for IT.*

Any principal of a firm that provides accountancy services requires a practising certificate. This is regardless of whether the principal does, or does not, directly provide the accountancy services.

*A Chartered Accountant is a principal of a firm that provides computer installation applications and software packages.*

In such a scenario, the main point of concern is whether the services are accountancy or related services. IT facilities and/or software packages that have accountancy or financial aspects, such as spreadsheets, costing models etc, would mean that the Chartered Accountant who is a principal would require a practising certificate. Also, whilst the supply or installation of software does not in itself constitute accountancy services, if the service includes processing an opening trial balance and initial transactions a practising certificate would probably be required.

*Having been in practice for a number of years in a firm of Chartered Accountants a partner is now retiring and has agreed with the other parties to continue as a consultant for the next two years – does the retiring partner need a practising certificate in each of these two years?*

Generally, if a retiring partner is to act as a consultant with his former firm only, there is a written contract detailing the commercial arrangements between the parties, the insurers are aware of the situation and the firm engages directly with the client and accepts responsibility for the work, the former partner will not be regarded as 'in practice'. If, however, the retiring partner continues to give public-facing advice a practising certificate may be required. Retiring partners should also be careful that they are not held out as a principal of the firm, otherwise this raises liability issues and would require a practising certificate.

*A Chartered Accountant is a principal in a firm that does not itself provide any accountancy services; the firm's only activity is as a principal in another firm which provides accountancy services.*

If there is some form of group structure, whether it comprises incorporated, unincorporated or a mixture of both types of entity, those who control the entities and are ultimately responsible for the provision of accountancy services are 'in practice' and, therefore, need a practising certificate.

*A Chartered Accountant is the finance director of a manufacturing company.*

A finance director employed and remunerated under PAYE will not require a practising certificate unless the company provides accountancy services.

*A Chartered Accountant has built up a portfolio of non-executive directorships.*

It is unlikely that a practising certificate would be required but the non-executive director should ensure that there is adequate Director's Indemnity Insurance arranged by him/herself or the company.

*A Chartered Accountant has been asked to undertake an independent examination of a charity.*

A member who provides an independent examination to a charity (or to a communal or sporting body, or to other similar bodies) free of charge, or for a nominal fee, does not need to hold a practising certificate. If any fee is charged for this work (other than what will be regarded as a nominal fee), the member will be regarded as engaging in practice, and would therefore be required to hold a practising certificate.

*A Chartered Accountant is retired and is a trustee of a charity which involves preparing the charity's accounts.*

Because there is no remuneration of trustees, there is no requirement to have a practising certificate; however, the trustee may wish to ensure that there is trustee indemnity insurance in place or personally arrange PII. Note also, that the definition of 'retired' can be grey and any Chartered Accountant in this scenario would be expected to undertake CPD. Further information can be found in the ICAS publication 'Guidance for CAs Acting for Scottish Charities'.

*A Chartered Accountant is a volunteer at the Citizens Advice Bureau (or a similar charity).*

The definition of being in practice includes being remunerated and so advice given in the capacity as a volunteer does not require a practising certificate.

## **Services to charities, non-profit making organisations, and sporting organisations**

Members of the Institute who provide accountancy services (outwith the regulated areas of audit, insolvency and investment business) to charities, communal or sporting bodies, or to other similar bodies free of charge, or for a nominal fee, do not need to hold a practising certificate. If any fee is charged for this work (other than what will be regarded as a nominal fee, and subject to there not being three or more appointments), the member will be regarded as engaging in practice, and will therefore be required to hold a practising certificate. As a guide, if a member is to receive a fee in excess of £50 per engagement then it may be difficult to justify regarding the fee as nominal.

Where members who do not have a practising certificate are providing independent examination or other reporting services to charities on a voluntary basis, they should inform the Trustees in writing that there is no PII in place. Members who do not have a practising certificate may use their designatory letters when signing an independent examination.

Sample wording: 'As a non-practising member of the Institute of Chartered Accountants of Scotland (ie I do not require to hold a practising certificate under the Institute's rules and regulations, regarding the voluntary services that I am providing to you), I am required to inform you that there are no professional indemnity arrangements in place regarding the voluntary services which I am providing to AN Charity.'

## **Further Information**

Further advice about whether a practising certificate is required can be sought from the [Institute](#) and/or from the Practitioner Certification Committee. In order that full and prompt consideration can be given to any individual query, it is helpful if the following information is provided at the outset:

- a detailed description of the type of work undertaken
- the relationship between you and those for whom work is undertaken, including any written contracts of/for services and any indemnification for work undertaken, and
- if there is a business structure in which there is more than one entity, a clear description of the structure, who owns each entity within it, and the ultimate owners.

Note that for both Continuing Professional Development and Practising Certificate purposes 'retired' is someone who is fully retired and carrying out no professional work (paid or unpaid) that calls on their financial or business expertise. Fully-retired members will sign a declaration with their Annual Return to the Institute confirming their retired status and their exemption from the CPD Scheme.

A practising certificate is issued for a calendar year and has to be applied for annually. An initial application needs to be submitted eight weeks prior to a member planning to go into practice. The application forms can be accessed [here](#).

Fees for practising certificates can be found [here](#).

*List of Contacts and Further useful information*

Angela Clark, Director, Professional Services

Rachel Richardson, Coordinator, Practising Certificate and PII

Tricia Gallacher, Director, Members Services

Ken McManus, Assistant Director, Members Services

The CA Practitioner Service (CAPS)

## **Other guidance**

[A Basic Guide to Starting in Practice](#)

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