

# Regulatory statistics – practice monitoring

# Contents

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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

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ACCA's monitoring activities include:

- **Statutory audit monitoring:** Monitoring compliance with auditing standards, ACCA's General Practising Regulations, the Code of Ethics and Conduct and the Ethical Standards for Auditors issued by the Financial Reporting Council 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

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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.

### VISIT OUTCOMES

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

- **Good:** The firm complies with auditing standards, ACCA's Global Practising Regulations (GPRs), the Code of Ethics and Conduct (CEC) and the Ethical Standards for Auditing (ESA) issued by the Financial Reporting Council
- **Satisfactory:** The firm is eligible for audit registration; it complies with the GPRs, CEC and the ESA, 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, CEC and ESA; 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, CEC and ESA and/or its audit work does not comply with relevant auditing standards
- **Regulatory action required:** The firm is referred 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, CEC or ESA, 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 Governance – Professional Conduct to consider whether disciplinary action is appropriate.

## Statutory audit monitoring

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

In the year to 31 December 2013, 392 statutory audit monitoring visits were undertaken to registered firms in the UK and Ireland which held audit appointments, compared with 390 visits in 2012.

In view of the limited number of visits undertaken each year and because high risk firms are monitored more frequently, no conclusions can be drawn by comparing visit outcomes from one year to the next.

A further 126 (2012: 233) firms, which held audit registration but had no audit clients, were also monitored, most on

a 'desk top' basis, 120 (2012: 225) of which had a satisfactory outcome.

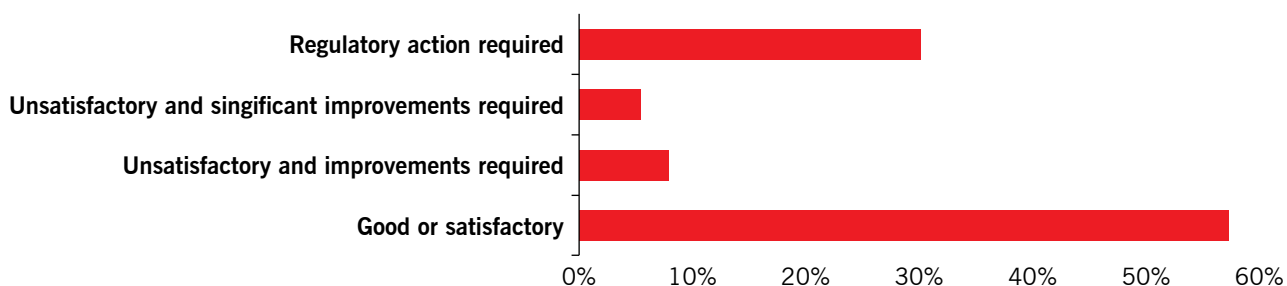
The table on page 5 analyses the outcomes by distinguishing between the results of first visits to recently registered firms, visits undertaken in accordance with the normal routine cycle of six years and those visits undertaken earlier than the normal six year cycle where a higher risk has been identified by staff, the Regulatory Assessor or the Admissions and Licensing Committee:

Outcomes of audit monitoring visits in 2013 to firms registered by ACCA to conduct audit work and holding audit appointments, by reason for visit

ACCA uses risk factors to determine whether a firm should be visited on the

normal cycle of 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.



OUTCOME	2011 %	2012 %	2013 %	2013 No.
Good or satisfactory	48	55	59	230
Unsatisfactory and improvements required	15	14	8	31
Unsatisfactory and significant improvements required	5	5	5	20
Regulatory action required	32	26	28	111
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>392</b>

OUTCOMES OF AUDIT MONITORING VISITS IN 2013 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	72	42	18	14	26
Subsequent visit after 6 years	105	62	8	6	24
Early follow-up initiated by staff after 4 years	110	67	6	2	25
Early follow-up initiated by staff after 2 years	49	65	4	2	29
Ordered by Regulatory Assessor or Committee	56	52	2	0	46
Investigative	0	0	0	0	0
<b>Total</b>	<b>392</b>	<b>59</b>	<b>8</b>	<b>5</b>	<b>28</b>

## 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. Regulatory action is not disciplinary action and is concerned only with whether firms are likely to comply with applicable standards and regulations in the future rather than penalising them for past misconduct. The regulatory action taken includes refusing to register firms or renew 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 other ACCA Committees concerned with regulation and discipline. 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 on non-compliant firms referred to them by

Practice Monitoring. Regulatory Assessors have the power to make a number of different decisions 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 decision 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, as prescribed in

ACCA's *Rulebook*, for the appeal to be heard. The Rulebook also enables ACCA to appeal against decisions of the Committee in exceptional circumstances.

When monitoring visits identify firms that do not comply 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 make sufficient improvements. 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

## Regulatory action

SUMMARY OF REASONS FOR REGULATORY ACTION ARISING FROM AUDIT MONITORING VISITS UNDERTAKEN IN 2013		
CIRCUMSTANCES	2012	2013
Inadequate improvement in compliance with auditing standards after a second or subsequent visit or no attempt to apply standards at a first visit	51	50
Inadequate improvement in compliance with auditing standards after a visit ordered by the Regulatory Assessor or Admissions and Licensing Committee	15	18
Failure to maintain the standard of audit work following release from a previous Assessor or Committee order to have audit work 'hot' reviewed	8	13
Failure to conduct audit work to a satisfactory standard following the withdrawal of audit registration and subsequent re-registration	2	1
Apparent lack of auditor independence/objectivity	1	4
Eligibility – control by qualified persons/control of audit work	15	17
Non co-operation with the monitoring process	1	4
Referred to Governance – professional Conduct	21	38
<b>Total</b>	<b>114</b>	<b>145</b>

interest to do so, then the findings will be referred to a Regulatory Assessor or the Committee following a first visit.

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

In 30 cases (2012: 10) 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 2013 AGAINST FIRMS WITH AUDIT REGISTRATION AND HOLDING AUDIT APPOINTMENTS		
ACTION TAKEN	2012	2013
'Hot' review/early follow-up	41	46
Registration removed or voluntarily surrendered	30	42 <sup>1</sup>
Remedied by firm	15	11
Referred to Governance – Professional Conduct	20	38
Other	3	8
<b>Total</b>	<b>109</b>	<b>145</b>

Note: The total of visits undertaken in 2013 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. As above there can be more than one action taken against a firm with audit registration and holding audit appointments so that the total analysis in the table above exceeds the number of firms where regulatory action has been taken.

<sup>1</sup> Includes three interim orders where the certificates were suspended until further order

## 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 Financial Reporting Council.

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.

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

AS AT 31 DECEMBER	2011	2012	2013
Number of registered training offices	4,283	3,949	3,856
Number of offices registered to provide training for the UK audit qualification	3,208	3,086	2,988
Number of registrations withdrawn	515	194	271
Number of approved training offices visited	756	481	584

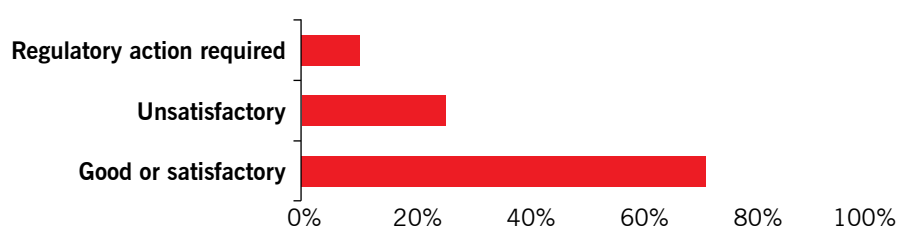
## Investment business

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

In the UK, ACCA members are required to be authorised by the Financial Conduct Authority 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.

Regulatory action was required in respect of two firms. In one case the firm did not meet the capital adequacy requirements but subsequently remedied its position. In the other case it appeared that the firm was not eligible because more than 20% of its total income derived from investment business. In addition, because the firm derived the majority of its commission from one product provider this appeared to give rise to a conflict of interest.

IN THE YEAR TO 31 DECEMBER 2013, ACCA CARRIED OUT 29 (2012: 45) INVESTMENT BUSINESS MONITORING VISITS IN IRELAND WITH THE FOLLOWING OUTCOMES



OUTCOMES OF INVESTMENT BUSINESS MONITORING VISITS IN IRELAND

OUTCOME	2011 %	2012 %	2013 %	2013 No.
Good or satisfactory	93	85	72	21
Unsatisfactory	0	2	21	6
Regulatory action required	7	13	7	2
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>29</b>

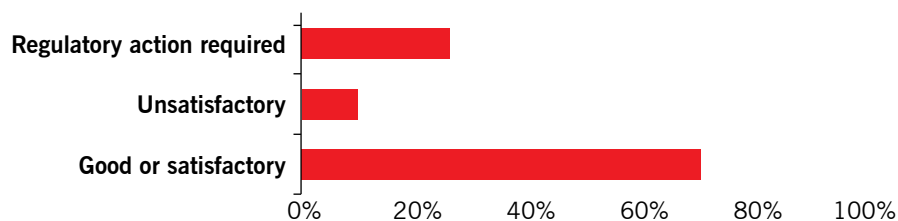
# Insolvency

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

There were two further (2012: none) 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.

Three insolvency practitioners where regulatory action is required were referred to the Admissions and Licensing Committee because of the standard of the insolvency work, but the Committee's decision in each case is not yet known. Five insolvency practitioners (including one of those also referred to Admissions and Licensing Committee) have been referred to Governance – Professional Conduct due to serious isolated breaches of the regulations.

## IN THE YEAR TO 31 DECEMBER 2013, ACCA CARRIED OUT 33 (2012: 41) FULL INSOLVENCY MONITORING VISITS IN THE UK WITH THE FOLLOWING OUTCOMES



## OUTCOMES OF INSOLVENCY MONITORING VISITS IN THE UK

OUTCOME	2011 %	2012 %	2013 %	2013 No.
Good or satisfactory	92	86	70	23
Unsatisfactory	8	7	9	3
Regulatory action required	0	7	21	7
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>33</b>

# 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 2013, 508 (2012: 502) 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 2013 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 2013, 244 firms were reviewed by this method, 98 of which are also included in the 126 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.

	2012	2013
ACCA Quality Checked visits conducted	198	226
Firms awarded <i>ACCA Quality Checked</i> (including revalidations)	84	107

## 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*.

In 2013 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 national audit regulator of Jamaica, the Public Accountancy Board.

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.

## 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	
		2012	2013	2012	2013	2012	2013
ICPAC	Cyprus	58	116	58	69	1	10
BICA	Botswana	9	13	–	–	–	–
SOCAM	Malawi	8	6	–	1	–	–
ZICA	Zambia	2	4	–	–	–	–
LIA	Lesotho	12	6	–	–	–	–
SIA	Swaziland	6	5	–	–	–	–
ICATT	Trinidad	22	21	3	5	1	1
ICAB	Barbados	10	13	–	–	–	–
ICAG	Guyana	2	4	–	3	–	–
ICAEC	Eastern Caribbean States	14	7	3	2	–	–
PAB	Jamaica	49	34	21	16	1	4

### Notes:

- 1 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.
- 2 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.

### ABBREVIATIONS

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



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