

# Public Practice Regulations

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**Effective from 1 January 2021**

## Contents

1	Citation .....	3
2	Interpretation .....	3
3	Practising certificate .....	3
4	Meaning of public practice .....	3
5	Eligibility for a practising certificate .....	4
6	Professional indemnity insurance .....	5
7	Engagement letters .....	7
8	Fees .....	7
9	Clients' money .....	8
10	Internal complaints-handling arrangements .....	9
11	Arrangements for death or incapacity .....	10
	Appendix 1A – Accountancy Services .....	12
	Appendix 1B – Taxation Services .....	12
	Appendix 2 – Non-accountancy Services .....	12

## **1 Citation**

- 1.1 These Regulations may be cited as the Institute of Financial Accountants Public Practice Regulations. These Regulations, as amended, shall take effect from 1 January 2021.
- 1.2 These Regulations apply to all members and member firms who wish to engage in public practice in the United Kingdom and the three Crown dependencies.

## **2 Interpretation**

- 2.1 Throughout these Regulations, unless the context otherwise requires, the interpretation set out in Bye-law 2 shall apply.

## **3 Practising certificate**

- 3.1 A member, shall be entitled to engage in public practice in the United Kingdom and the three Crown dependencies only if they hold a valid IFA practising certificate.
- 3.2 A practising certificate issued by the Institute shall be in such form as determined by the Institute.
- 3.3 A member who ceases to be eligible to hold a practising certificate shall return their practising certificate to the Institute.
- 3.4 A practising certificate issued by the Institute shall normally be issued for a period not exceeding twelve months and ending on 31 December, and shall, subject to the holder continuing to meet the eligibility requirements, be renewed annually on 1 January for a period of 12 months.

## **4 Meaning of public practice**

### *Public practice activities*

- 4.1 A member is engaged in public practice when they provide, or are held out to be able to provide, accountancy services to the public, whether in the capacity of sole practitioner, a partner in a partnership, a member in a limited liability partnership, or a director of a body corporate.
- 4.2 Appendices 1A and 1B to these Public Practice Regulations provide guidance on the types of services that the Institute would usually regard as accountancy services. A member who has any doubt about whether they are in public practice shall consult the Institute at the earliest practicable opportunity.
- 4.3 A member who is a principal, or held out as a principal, in a firm that provides public practice accountancy services will always be regarded as being in public practice. This includes a member who is a principal, or held out as a principal, in an entity that is:
  - (a) the parent of a public practice firm; or
  - (b) a principal in a public practice firm.
- 4.4 A member who is employed in a public practice firm is not, by virtue of their employment, engaging in public practice.
- 4.5 A member shall be held out to be engaging in public practice if they are employed in a public practice firm and either:
  - (a) there is no other accountant within the firm in a position of seniority or supervision over the member; or
  - (b) the clients of the public practice firm are otherwise led, or allowed, to believe that the member is a principal of the firm.

### *Honorary work*

- 4.6 A member who gratuitously and not in anticipation of reward applies their skills for the benefit of friends, family and small not-for-profit organisations is not engaging in public practice by virtue of the services they provide to those beneficiaries. A nominal amount may be accepted by the member to cover travel and other ancillary expenses.
- 4.7 For the avoidance of doubt, any amount accepted in respect of expenses must not be excessive, and must relate to costs necessarily incurred in the course of the honorary work.
- 4.8 A member providing honorary services is reminded of their responsibility to comply with the Continuing Professional Development Regulations.
- 4.9 Members providing honorary services are reminded of the fundamental ethical principle of “professional competence and due care”, and shall not provide a service if they have any doubt that they possess the relevant knowledge and skill at the level required to ensure that the beneficiary of the service receives a competent professional service based on current developments in practice, legislation and techniques.

### *Anti-money laundering supervision*

- 4.10 A member who is not in public practice shall nevertheless consider whether they are within the scope of the Money Laundering Regulations, for example as a trust or company service provider (TCSP). A TCSP shall be subject to anti-money laundering supervision, which may be by HM Revenue & Customs. A member who is not engaged in public practice, but who wishes to be supervised for anti-money laundering compliance by the Institute, may be supervised by the Institute if they successfully apply for an IFA practising certificate.

## **5 Eligibility for a practising certificate**

- 5.1 A member shall be eligible for an IFA practising certificate if the member:
- (a) educational requirements for an IFA practicing certificate as set out by the Institute;
  - (b) has not less than three years of experience, gained in the UK within ten years of applying for a practising certificate, covering the relevant areas of practice;
  - (c) is compliant with the Continuing Professional Development Regulations;
  - (d) understands the fundamental ethical principles set out within the Institute’s Code of Ethics;
  - (e) is a fit and proper person, in accordance with the Bye-laws; and
  - (f) has submitted an application to the Institute, in such form as prescribed by the Institute, together with the prescribed fee.
- 5.2 In meeting the practical experience requirement, the relevant areas in which the experience has been gained shall cover at least three of the areas of:
- (a) financial accounting;
  - (b) management accounting;
  - (c) assurance;
  - (d) taxation; and
  - (e) data processing.
- 5.3 A member may be eligible to apply for a tax practising certificate only if:

- (a) the member has not less than three years of experience, gained in the UK within ten years of applying for a practising certificate, a significant proportion of which covered one or more of the areas of practice listed in Appendix 1B;
  - (b) the member intends to provide services listed in Appendix 1B;
  - (c) less than 5% of the fees generated by the member are derived from the provision of accountancy services listed in Appendix 1A; and
  - (d) the member does not anticipate providing any of the services listed in Appendix 1A in the future.
- 5.4 A member whose application to the Institute for a practising certificate is refused may request that their application be referred to the Board.
- 5.5 Failure to hold an appropriate valid Institute practising certificate may lead to disciplinary action in accordance with the Bye-laws.
- 5.6 Members engaged in public practice wishing to undertake non-statutory engagement such as acting an ATOL Reporting Accountant for an ATOL holder, must apply to the Institute to be approved as an ATOL Reporting Accountant (ARA) under the Institute's Licensed Practice Scheme as an ARA.

## **6 Professional indemnity insurance**

- 6.1 A member who is a sole practitioner in public practice shall hold professional indemnity insurance that meets the requirements of these Public Practice Regulations.
- 6.2 A member who is a principal, or held out as a principal, of a firm in public practice shall ensure that the professional indemnity insurance arrangements of their firm comply with these Public Practice Regulations.

### *Terms of cover*

- 6.3 The minimum amount of professional indemnity insurance cover, in respect of each and every claim, shall be:
- (a) where a firm's total income is less than £400,000, the greater of two and a half times its total income or £100,000;
  - (b) where a firm's total income is £400,000 or more, £1,000,000.
- 6.4 A firm's total income, for the purpose of calculating the minimum level of professional indemnity insurance cover, is its aggregate income from professional fees raised by the firm, including any commissions received and retained by the firm, during the firm's last complete accounting year. If the firm has not yet completed an accounting year, its total income shall be an estimate of its total income for the coming year.
- 6.5 A member firm must conduct a risk assessment to establish the appropriate level of professional indemnity insurance cover in excess of the minimum amount of cover established according to the firm's total income. As part of its risk assessment, a member firm shall consider:
- (a) any significant fluctuations in total income over recent years;
  - (b) the likely exposure of the member firm to claims, taking into account the structure and governance of the firm, its clients and the services it may provide;
  - (c) whether the proposed level of professional indemnity insurance cover is consistent with that of similar firms with similar risk profiles and resources;
  - (d) any advice received from experts, including the firm's insurers;

- (e) the external economic climate, and the types of businesses facing difficulties;
  - (f) the resources available to the firm to meet any claims that may arise.
- 6.6 A member firm shall review its risk assessment at least annually, to ensure that the level of its professional indemnity insurance cover remains adequate.
- 6.7 The firm's professional indemnity insurance must cover all civil liability, in respect of all services that may be provided by the member firm.
- 6.8 The professional indemnity insurance cover may include an uninsured excess, where the firm would bear the first part of any claim. The member firm must ensure that it would be able to meet the costs of any excess that may arise out of a claim. The uninsured excess shall never be more than 2% of the minimum amount of professional indemnity insurance cover, in respect of each and every claim, according to the calculation set out above.

#### *Period of cover*

- 6.9 A member who discovers (on becoming a principal in a public practice firm or otherwise) that there has been a period during which the firm in which they are a principal did not hold professional indemnity insurance cover according to these Public Practice Regulations shall require the firm to procure retroactive professional indemnity insurance, to provide cover in respect of past acts. The period of retroactive professional indemnity insurance cover shall be six years prior to the date on which the retroactive policy becomes effective, except that retroactive professional indemnity insurance shall not be required to cover any period before the firm commenced public practice.
- 6.10 A member who ceases to be in public practice as a sole practitioner must ensure that they have arrangements for professional indemnity insurance cover ("run-off cover") for a period of not less than six years after they cease to engage in public practice. The terms of the professional indemnity insurance policy shall satisfy the requirements of these Public Practice Regulations as applied to the firm when it last renewed its professional indemnity insurance policy prior to cessation.
- 6.11 A member who ceases to be a principal in a public practice firm that is a partnership, limited liability partnership or limited company, and that continues to exist as a public practice firm, shall seek to ensure that the firm shall have adequate arrangements for professional indemnity insurance cover for a period of not less than six years after the member ceases to be a principal of that firm. If the member has any doubt about the adequacy of such arrangements, they shall make their own arrangements for run-off cover for a period of not less than six years after they cease to be a principal of the firm.
- 6.12 A member who is to be a principal in a public practice firm that is a partnership, limited liability partnership or limited company, and that ceases to exist as a public practice firm, shall ensure that they have arrangements for run-off cover for a period of not less than six years after they cease to be a principal of the firm. The terms of the professional indemnity insurance policy shall satisfy the requirements of these Public Practice Regulations as applied to the firm when it last renewed its professional indemnity insurance policy prior to cessation.

#### *Monitoring and compliance*

- 6.13 A member in public practice shall submit a declaration each year, in the format and by the means prescribed by the Institute, that they hold professional indemnity insurance in accordance with the provisions of these Public Practice Regulations, or claiming exemption from the professional indemnity insurance provisions of these Public Practice Regulations.
- 6.14 A member in public practice shall, on request, make available to the Institute copies of their firm's professional indemnity insurance certificate and insurance policy.

- 6.15 Any failure by a member or affiliate to co-operate with the Institute's monitoring arrangements in respect of professional indemnity insurance may lead to disciplinary action in accordance with the Bye-laws.

### *Exemptions*

- 6.16 The Institute may, at its absolute discretion and on such terms as it may decide, grant an exemption from the requirement to comply with the professional indemnity insurance provisions of these Public Practice Regulations in the following circumstances:
- (a) a member is a principal in a public practice firm regulated by another professional body, which is a member body of the International Federation of Accountants, and that firm holds professional indemnity insurance that meets the requirements of that professional body;
  - (b) a member who is self-employed is engaged as a consultant for a public practice firm, provided the member has written confirmation from the firm that the firm's professional indemnity insurance policy covers the services of the member, and meets the professional indemnity insurance requirements of these Public Practice Regulations.
- 6.17 A member who is not engaged in public practice and who does not hold professional indemnity insurance, but who provides accountancy services on an honorary basis, must indicate, in writing, to the recipient of those services that the member does not hold professional indemnity insurance.
- 6.18 In exceptional circumstances, the Institute may, at its absolute discretion and on such terms as it may decide, grant an exemption from the requirement to comply with the professional indemnity insurance provisions of these Public Practice Regulations.

## **7 Engagement letters**

- 7.1 A member firm shall send to their client an engagement letter which sets out the services to be performed, the scope of the member firm's responsibilities, and the terms under which the firm is agreeing to be engaged by the client. The engagement letter shall be agreed with the client before any professional work is undertaken by the member firm or, if this is not possible, as soon as practicable.
- 7.2 The engagement letter agreed with each client shall be reviewed regularly. Where new work is to be undertaken on behalf of a client, or any terms are required to be amended, the member firm shall issue a new engagement letter, and agree the services and amended terms with the client.
- 7.3 A member firm shall retain evidence of the terms that have been agreed by way of an engagement letter, including any amended terms, and members and affiliates shall, on request, make available to the Institute copies of their firms' engagement letters.

## **8 Fees**

- 8.1 The engagement letter shall state, or estimate, the fees to be charged to the client, or the basis upon which fees are to be calculated.
- 8.2 The Institute does not set out charge out rates nor the basis upon which fees are calculated.
- 8.3 Fees and the basis of their calculation are matters to be agreed between a firm and its client. However, where the Institute receives a complaint concerning fees, and fees quoted or estimated were a feature in obtaining or retaining a professional engagement, a member firm may be required to demonstrate to the Institute that the engagement was planned and undertaken with due regard for relevant professional and ethical standards.

- 8.4 A member firm shall provide sufficient information to clients to enable a client to understand the basis for fees charged. If this requires the provision of further information after the fees have been charged, such further information will be provided without charge to the client in respect of the provision of that information.
- 8.5 If it becomes apparent that the level of fees to be charged by a member firm is likely to exceed the level of fees estimated, or otherwise anticipated by the client, the member firm shall promptly inform the client of the situation, and provide the client with an explanation for the variance.
- 8.6 In the event of a dispute in respect of the level of fees charged by a member firm, the firm shall take reasonable and prompt action to resolve the dispute.

## **9 Clients' money**

- 9.1 Clients' money must be kept separate from money belonging to a member firm.
- 9.2 A member who is a principal in a firm that is not a member firm shall require the firm to adopt client money policies and procedures that are at least as stringent as those set out in these Public Practice Regulations.
- 9.3 Members are reminded that concealing criminal property and becoming involved in an arrangement that they know or suspect facilitates the acquisition, retention, use or control of criminal property are offences under the Proceeds of Crime Act 2002.
- 9.4 Clients' money received by a member firm must be paid into a separate client bank account designated for the purpose of holding clients' money only.
- 9.5 Before paying money into a client bank account, a member firm must have verified the identity of the client, and undertaken relevant due diligence measures in respect of the client, in accordance with the Money Laundering Regulations.
- 9.6 A client bank account shall only be used for receiving and remitting clients' money that relates to the services being provided by the member firm to those clients.
- 9.7 If money received by a member firm includes both a client's money and the firm's money in a single deposit, such as a cheque, the money shall be paid into a client bank account, where one exists. As soon as the funds have cleared, money not belonging to the client shall be withdrawn from the client bank account.
- 9.8 Clients' money must be placed in an interest-bearing account. A member firm shall account to a client for any interest earned, unless the amount of interest earned from a client's money is insignificant. Subject to the provisions below in respect of designated client accounts, a member firm may also agree with a client, in writing, that small amounts of interest of less than a stated amount may be retained by the firm.
- 9.9 Where money received by a member firm belonging to a single client exceeds £10,000, and it is anticipated that the money will be held by the firm for more than 30 days, that money shall be paid into a separate interest-bearing bank account designated to that client. A member firm shall always account to a client in respect of interest earned on such a designated client account.
- 9.10 Money held in a client bank account may be withdrawn by a member firm when:
- (a) making a repayment to a client on whose behalf the firm is holding the money;
  - (b) following receipt of written authorisation from the client:
    - (i) making a payment on behalf of a client on whose behalf the firm is holding the money; or

- (ii) making a payment to the firm relating to fees earned by the firm; or
  - c) transferring money to another client bank account.
- 9.11 When opening a client bank account, a member firm must provide written notice to the bank concerned that:
- (a) all money standing to the credit of that account is held by the firm as clients' money and that the bank is not entitled to combine the account with any other account or to exercise any right to set off or counterclaim against money in that account;
  - (b) any interest accruing on the money in the client bank account must be credited to that account; and
  - (c) the bank must include in its records that the money in the client bank account belongs to the client(s) of the member firm;

The bank must acknowledge in writing that it accepts these terms before a member firm may deposit any clients' money into the client bank account.

- 9.12 A member firm may cease to treat as clients' money, any money that remains unclaimed by a client five years after depositing the funds in the client bank account, provided that the member firm can demonstrate that it has taken all reasonable steps to trace the relevant client. In such circumstances, the money withdrawn from the client bank account shall be donated to a registered charity. If the amount exceeds £10,000 in respect of a particular client, the firm shall require the registered charity to provide an indemnity against any claim subsequently made by a party to recover the money.
- 9.13 A member firm shall keep adequate records in respect of all transactions in a client bank account, including details of all transactions in the clients' ledger accounts. A member firm shall reconcile the client bank account to the clients' ledger accounts every month, or more frequently if appropriate. These records shall be kept for at least six years from the date of any transaction in a client bank account.
- 9.14 A member firm shall submit a declaration each year, in the format and by the means prescribed by the Institute, that they meet the requirements of these Public Practice Regulations including the holding of clients' money.
- 9.15 A member in public practice shall, on request, make available to the Institute their firm's records in respect of the holding of clients' money.
- 9.16 Any failure by a member or affiliate to co-operate with the Institute's monitoring arrangements in respect of the holding of clients' money may lead to disciplinary action in accordance with the Bye-laws.

## **10 Internal complaints-handling arrangements**

- 10.1 A member firm shall implement adequate procedures to handle client complaints in respect of fee, service and contractual disputes.
- 10.2 A member firm shall ensure that clients are made aware of how to complain if they are dissatisfied with the service that they receive, and that a client who raises a complaint is treated with respect.
- 10.3 Adequate arrangements for handling complaints will always include policies and procedures that ensure that:
- (a) complaints are acknowledged promptly, in writing;

- (b) where the member firm receives a complaint orally, the letter of acknowledgement sets out the writer's understanding of the nature of the complaint;
  - (c) complaints are investigated by the firm, unless it can be demonstrated that:
    - (i) the complaint is already being investigated by an organisation such as a regulator or professional body;
    - (ii) the complaint is already the subject of adjudication or alternative dispute resolution; or
    - (iii) the complaint is trivial or vexatious;
  - (d) each complaint is investigated by an individual of sufficient experience and seniority within the firm;
  - (e) where possible, a complaint is investigated by an individual who was not involved in the alleged act or inaction that gave rise to the complaint;
  - (f) following investigation, any remedial action considered appropriate is taken promptly;
  - (g) if the firm's internal complaints-handling arrangements have been exhausted, the client is informed that the firm has been unable to resolve the complaint; and
  - (h) where a complaint is not resolved to a client's satisfaction, the client is advised of their right to refer their complaint to the Institute.
- 10.4 On receiving a complaint, and throughout the process of investigating a complaint, a member firm shall determine whether it is required to inform its professional indemnity insurance provider of the complaint.

## **11 Arrangements for death or incapacity**

- 11.1 A member in public practice or affiliate shall make adequate arrangements to ensure the continuity of their practice in the event of their long-term incapacity through ill-health or their death. Members have a duty of care to their clients and without these arrangements serious difficulties may arise, prejudicing the interests of clients.
- 11.2 A member who is a sole practitioner shall have a nominated person or firm (an "alternate") to discharge the obligations of the firm in the event of ill-health or death. Failure to appoint an alternate may lead to disciplinary action in accordance with the Bye-laws.
- 11.3 A member who is a principal in a partnership, limited liability partnership or incorporated firm, or an affiliate in such a firm, may make arrangements with one or more other principals in the firm that they shall act as continuity provider(s), should it become necessary to implement the relevant continuity arrangements.
- 11.4 When making arrangements for continuity in the event of death or incapacity, a member or affiliate shall assess the competency of the individual or firm that is intended to be the alternate and the alternate's capacity to undertake the additional work should it become necessary to implement the continuity arrangements.
- 11.5 The parties to the agreed continuity arrangements shall consider whether the arrangements might impact legal documents, such as powers of attorneys or wills.
- 11.6 A member or affiliate's continuity arrangements in the case of their death or incapacity shall be in writing and periodically reviewed by the relevant parties.
- 11.7 A member or affiliate in public practice shall, on request, make available to the Institute a written agreement documenting their arrangements in case of their death or incapacity.

11.8 Any failure by a member or affiliate to co-operate with the Institute's monitoring arrangements in respect of continuity of practice in the event of death or incapacity may lead to disciplinary action in accordance with the Bye-laws.

## **Appendix 1A – Accountancy Services**

The following professional services are considered by the Institute to be accountancy services:

- bookkeeping
- client payroll
- preparing management accounts
- preparing client budgets, forecasts and/or cash flows
- preparing and/or compiling business plans
- preparing financial accounts
- compiling financial statements (whether or not in a statutory format)
- management consultancy concerning accountancy activities
- internal audit of accounting and internal control systems
- other assurance services concerning financial reporting including, but not limited to, independent examination for charities, certification of income, and ATOL reporting
- advice or consultancy on accounting, internal control and financial reporting systems
- business funding advice, excluding seeking and/or negotiating the source of funds
- valuations of businesses, shares, related instruments and assets
- due diligence concerning the financial aspects of a transaction such as a business acquisition
- debt counselling
- estate administration
- acting as an executor of a will
- accepting an insolvency appointment (being authorised to do so)
- forensic accounting
- expert witness services where they are related to accountancy services
- any other professional services that might reasonably be perceived by a third party to be public practice accountancy services.

## **Appendix 1B – Taxation Services**

The following professional services are considered by the Institute to be accountancy services that are taxation services:

- preparing, or assisting with the preparation of, the tax return of a business or individual
- providing taxation advice
- representing a client in respect of a tax matter including, but not limited to, corresponding with the tax authorities and/or representing a client undergoing a tax investigation.

## **Appendix 2 – Non-accountancy Services**

The following services would not usually be regarded by the Institute as accountancy services:

- advising on governance
- advising on business strategy which does not include financial advice
- training services to accountancy firms and/or accountancy students
- business funding services comprising only seeking and/or negotiating the source of funds
- investment business and other activities conducted under authorisation from the FCA or the PRA
- management consulting on non-accounting matters
- company secretarial services
- company formation
- providing a correspondence address and/or a registered office address
- computer hardware and software installation
- computer training