

Practice  
Assurance  
Standards



aat



# Practice Assurance Standards

Guidance on the *Practice Assurance Standards* is intended to help firms interpret and follow the principles-based standards. It sets out examples of best and acceptable practice.

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Branch network event



# Introduction

Firms are free to follow whatever procedures they wish to act in accordance with the standards. They must, however, be prepared to demonstrate that their procedures achieve the standards in practice. Firms' procedures can be electronic or manual; their content and scope are more important than the way in which they are recorded.

If a firm subcontracts work to others who are, themselves, subject to a scheme of quality review through their professional body, the firm may accept the quality requirements of the professional body concerned. It should, nevertheless, ensure that its dealings with the subcontractor are in accordance with these standards.

You will find further assistance in meeting the standards in our practice management toolkit.

Our ethics helpline gives advice on interpreting *AAT's Code of Professional Ethics*. Call the helpline on **+44 (0)20 3735 2405**.

Visit [aat.org.uk/professional-standards](http://aat.org.uk/professional-standards) for further information.

# Standard 1: laws, regulations and professional standards

A firm should comply with laws, regulations and standards that are relevant to the services it provides, including AAT's regulations, standards and guidance.

## Guidance

All AAT licensed members are subject to some form of statutory requirement as well as AAT's regulations and standards. In addition, some laws and regulations apply to most client assignments. A firm should have access to appropriate reference sources which enable it to be aware of any such requirements.

## Examples

Evidence of satisfactory compliance with standard 1 will vary from firm to firm and will depend on the nature of the firm and the work it undertakes. In other words, the evidence provided by a sole practitioner to demonstrate compliance with standard 1 may be very different from the evidence provided by a larger firm.

Examples of best and acceptable practice are given below.

### Acceptable practice



Copies of relevant legislation, regulations, byelaws and ethical guidance available. 

Access is available to AAT's regulations and standards and these are applied. 

Staff know how to access the above. 

The firm has considered how the relevant laws and regulations apply to it. 

## Best practice



Copies of relevant legislation, regulations, standards and guidance available with subscription service to ensure always up to date. 

Relevant legislation available to all staff via computer systems/intranet. 

Checklist of legislation for each assignment, client type or industry available. 

Each client file has list of legislation and other regulations specifically applicable to client. 

Guidance available within the firm, for example, guidance on money laundering, accounts and auditing standards. 

The firm has appointed a principal to stay abreast of developments (to include a process for reviewing key sources of laws and regulations, for example, regular review of relevant websites) and to coordinate responses to change. 

## Need help?

AAT's practice management toolkit contains advice and guidance on how to comply with laws and regulations relevant to managing your firm.

You can also discuss ethical and money laundering enquiries with AAT's Advisory Services on a confidential basis by calling **+44 (0)20 3735 2405**.

Visit [aat.org.uk/professional-standards](http://aat.org.uk/professional-standards) for further information.



# Standard 2: client acceptance and disengagement

A firm should agree to act for a client only if, in doing so, it does not contravene AAT's regulations, standards and guidance.

## Guidance

AAT requires every member providing self-employed accountancy and bookkeeping services to do so in a manner that treats clients fairly and safeguards their interests. All such members must comply with the *Provision of Services Regulations 2009*.

When a firm accepts a client, and throughout the term of the engagement, the firm should be able to demonstrate that:

- there is no threat to the firm's integrity or objectivity that cannot be managed by appropriate safeguards
- the firm has access to adequate resources and expertise to provide the services required
- the firm has made adequate enquiries to ensure that there are no other reasons to prevent it from providing the services, including those related to the law and regulations on money laundering
- the terms of engagement are clear, unequivocal and set out in a letter of engagement.

### **Integrity, objectivity and independence**

Integrity and objectivity are essential in the exercise of professional judgement. Threats to integrity and objectivity arise most frequently when there is a conflict of interest between a firm and its client or where different clients have conflicting interests.

The main considerations firms should take into account are contained in *AAT's Code of Professional Ethics*.

### Part A – General application of the code

- Section 110 Integrity
- Section 120 Objectivity

### Part B – AAT licensed accountants

- Section 200 Introduction
- Section 220 Conflicts of interest
- Section 280 Objectivity – all services
- Section 290 Independence – review and assurance engagements

Situations that may threaten a firm's integrity, objectivity or independence include, but are not limited to:

- the relative size of an individual fee
- a mutual or conflicting business interest between the firm (or persons with close connections with the firm) and a client
- loans to or from clients
- the receipt of goods, services or hospitality from a client
- a beneficial interest in shares or other investments in clients.

*AAT's Code of Professional Ethics* includes examples of safeguards that are available to remove or reduce such threats. For example, where a potential conflict of interest between the firm and the client is identified,

it may be sufficient to disclose, in full, the circumstances to the client and to obtain their informed consent. Firms should refer to *AAT's Code of Professional Ethics* for a more detailed discussion of these and other related issues.

### **Resources and expertise**

Resources and expertise should be adequate for the services to be provided. A firm should not take on a new client unless it has access to appropriate staff or subcontractors to deal with the increase in work. Firms should guard against creating unmanageable pressures for themselves that could adversely affect their services to clients.

It is important that a firm only undertakes work that it is competent to perform.

The staff and subcontractors dealing with the assignment should have the necessary technical knowledge. Particular care should be taken to ensure that the relevant expertise is available, within the firm or from external sources, to deal with specialist areas.

All technical staff should receive appropriate ongoing training. In particular, all professionally qualified staff and principals should comply with the CPD requirements of their professional body. All staff should have access to appropriate technical material and resources.

### **Professional enquiries prior to acceptance**

Enquiries should be made to ensure that there are no other reasons to prevent the firm from entering into an engagement.

These enquiries should include communicating with the prospective client's existing accountant to establish if there are any considerations that might affect the firm's decision whether to accept appointment. Suggestions on how to carry out such professional enquiries are included in *AAT's Code of Professional Ethics*, section 210 Professional Appointment.

Firms should carry out their obligation to respond promptly to such enquiries from other firms and, if there is a subsequent transfer of client, cooperate with the new accountant.

Firms should be aware of, and compliant with, the laws and regulations in the UK relating to money laundering and *Proceeds of Crime Act 2002*. Failure to observe *The Money Laundering Regulations 2017* can put members and other staff at risk of criminal prosecution. All firms have been provided with AAT's *Anti Money Laundering toolkit* which provides up to date advice for firms on meeting their obligations under *The Money Laundering Regulations 2017*.

AAT monitors firms that are bound by its *Practice Assurance Standards*. This process may include an onsite visit, a telephone

review or a desktop review. At the end of each review, the firm will receive a report identifying areas of improvement including practical solutions and support.

### **Terms of engagement**

Many disputes with clients result from a misunderstanding or misinterpretation of the nature or scope of a firm's terms of engagement. A clear letter of engagement before starting work is mandated by AAT to avoid misunderstandings over the scope of the work to be completed. This could be particularly important for professional indemnity insurance purposes and could help avoid disputes or enable them to be resolved more easily.

If the nature of the services or the scope of the work changes at any time, the firm and client should agree a revised letter of engagement to ensure that the client understands the revised terms.

AAT's *Client Care* policy requires firms to inform all clients in writing of the basis for calculating their fees and their complaints procedure, including their right to complain to AAT. We find the best way of communicating this information to clients is to include it in a letter of engagement or attached terms of business.

### **Terms of disengagement**

Complaints are often made to AAT when a firm ceases to act and the client misunderstands the extent of the work the firm has agreed to complete. We have also seen instances where the same piece of work has been carried out by both the client's new accountant and their previous one. To avoid these issues, firms are advised to agree terms of disengagement at the appropriate time, identifying the work to be completed and the terms on which this will be done.

## Examples

Evidence of satisfactory compliance with standard 2 will vary from firm to firm and will depend on the size of the firm and the nature of its clients.

Examples of acceptable and best practice are given below.

### Acceptable practice

#### **Integrity, objectivity and independence**

The firm understands the requirements of *AAT's Code of Professional Ethics* 

Integrity and objectivity issues considered and, where identified, file note of relevant issues and safeguards put in place.

Objectivity in assurance engagements requires independence to be considered. 

#### **Resources and expertise**

Where the firm identifies that the nature of the work is outside its usual activities, file note confirming that the skills needed will be available on the assignment. 

#### **Professional enquiries prior to acceptance**

Anti Money Laundering procedures, as required by the *Money Laundering Regulations 2017* documented and applied to all clients. 

Guidance in *AAT's Code of Professional Ethics*, section 210, Professional Appointment, is followed. 

### Terms of engagement

Issue all clients with a letter of engagement to include as a minimum the basis of the firm's fees and its complaints procedure (to include the clients' right to complain to AAT). 

File note of agreed subsequent changes. 

Due diligence information on file for each client. 

### Terms of disengagement

File note of agreed disengagement terms retained. 

### Best practice

#### **Integrity, objectivity and independence**

When considering a new client, suitable enquiries made of principals and staff asking if they have any independence issues. 

Where limited assurance engagements are performed, annual independence and fit and proper (where appropriate) declarations completed by all principals and all staff with requirement to inform of changed circumstances immediately. 

Where relevant, independence and objectivity issues have been considered for each assignment and noted on file. 

Where issues identified, file note of relevant issues and safeguards put in place. 

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### Resources and expertise

Where appropriate, file note identifying specific skills needed for each new client, and staff to be used to meet those needs. 

Specific skills needed for each client re-assessed annually. 

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### Terms of engagement

Issue all clients with an engagement letter. 

Signed engagement letter retained on file. 

If client does not return signed engagement letter, client advised in writing, stating that approval of the terms of the engagement will be assumed, unless the firm hears otherwise within a specified period of time. 

Record on file of matters discussed with each new client. 

Other than in a sole practice, second principal approval for accepting certain categories of new client. 

Regular review to ensure engagement letter remains up to date and revised letter issued if any changes. 

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### Terms of disengagement

Disengagement letter retained on file, as signed by client. 

## Need help?

AAT's practice management toolkit contains advice and guidance on how to comply with laws and regulations relevant to managing your firm.

AAT's Anti Money Laundering toolkit has been sent to all AAT licensed members who are supervised by AAT. This explains how to comply with Anti Money Laundering legislation. If you are not supervised by AAT for Anti Money Laundering, please seek guidance from your supervisor.

You can also discuss ethical and money laundering enquiries with AAT's Advisory Services on a confidential basis by calling **+44 (0)20 3735 2405**.

Visit [aat.org.uk/professional-standards](http://aat.org.uk/professional-standards) for further information.



# Standard 3: competence

A firm should ensure that all principals, staff and subcontractors are competent to carry out their work.

## Guidance

To ensure that principals and staff (including subcontractors) are competent, firms will need to have appropriate arrangements in place for:

- recruitment
- development and training
- access to up to date technical and non-technical reference material and information sources
- provision of consultation where necessary
- allocation of staff to assignments consistent with their capabilities
- appropriate supervision and review of work.

## Recruitment

The recruitment process should include an assessment of the fit and proper status of applicants and their competence and relevant experience to carry out the work that will be assigned to them. The firm is advised to take up references, including those of previous employers. It is also advisable to see original rather than photocopied certificates providing evidence of qualifications.

## Development and training

### Generally

The level of skills and knowledge required of an individual depend on the work to be carried out and the level of responsibility.

The firm should ensure that the development needs of all principals and members of staff are formally assessed on a regular basis through, for example, manager reviews and appraisals and informally through peer discussions. The firm should ensure that staff keep up to date and undertake appropriate development and training to enable them to carry out their work competently. It is recommended that all staff have a formal performance appraisal at least once a year that includes a discussion of their development and training needs.

### Continuing professional development (CPD)

All professional staff should comply with the continuing professional development requirements of their own professional bodies. AAT licensed members must ensure they keep up to date with CPD in all technical competencies, but also in practice management. CPD requirements are set out in AAT's *CPD* policy. All members must assess, plan, action and evaluate their CPD needs twice per year.

### Technical reference material

The firm should ensure that staff have access to relevant technical and other information they need.

## Consultation

The firm should encourage staff and subcontractors to consult with others in the firm on technical, ethical and other issues whenever appropriate. It may be necessary to seek external advice if the appropriate expertise is not available within the firm.

Sole practitioners may find it helpful to set up arrangements with another firm or consultancy organisation in order to seek advice and information, as well as making full use of AAT's website, helplines and toolkits.

## Examples

Evidence of satisfactory compliance with standard 3 will vary from firm to firm and will depend on the size and structure of the firm. Examples of acceptable and best practice are given below.

### Acceptable practice



#### Recruitment

Interview conducted and applicant's own CV on file. 

Written or oral references obtained. 

Fit and proper forms signed and on file, updated if circumstances change. 

Independence/confidentiality forms signed and on file, updated if circumstances change. 

Written statement of employment (including job description and the principal terms and conditions) given to the employee and held on file. 

### Development and training

CPD requirements complied with and records on file. AAT licensed members to record their CPD in the assess, plan, action, evaluate style. 

### Technical reference material

Relevant technical reference material available and kept up to date. 

### Consultation

Names of potential external consultants on file (not necessarily a formal agreement with each one). 

Written records of consultation on significant issues. 

Use of AAT's technical and other helplines. 

### Best practice



#### Recruitment

Each applicant required to complete an application form. 

Written references obtained and qualifications verified. 

Probationary period required for new staff. 

Personnel file maintained for each member of staff. 

Annual fit and proper forms signed and on file. Principals and staff required to declare any changed circumstances when they happen. 

Annual independence/confidentiality forms signed and on file. Principals and staff required to declare any changed circumstances when they happen. 

Signed contract of employment and job description retained on file and reviewed annually. 

Induction programmes produced and followed. 

Exit interviews carried out. 

Staff surveys conducted. 

### **Development and training**

Process in place to encourage ongoing review of development needs through, for example, manager reviews and peer discussions. 

Mentor/mentee arrangements in place which are supported by a nominated development and training individual or training principal. 

Development process in place that encourages consideration of professional expectations, key risks and requirements of key stakeholders. 

Record of the results of key development and training activities. 

Follow-up of training needs and record of follow-up. 

### **Technical reference material**

Principal appointed to keep abreast of technical developments and communication plan in place. 

Relevant technical reference material obtained with subscriptions to updating services. 

### **Consultation**

Internal (or external) consultation required in specific situations. 

Signed agreement on file with external consultant. 

### **Need help?**

AAT's practice management toolkit contains advice and guidance on how to ensure competence within your firm.

Information about technical and AAT's other helplines can be found on the AAT website.

You can also get advice on CPD and our CPD policy from the AAT website.



## Standard 4: quality control

A firm should ensure that work is conducted in an environment where quality is monitored.

### Guidance

A firm should have procedures and systems in place, appropriate to its size, to ensure that:

- the work of the firm is organised and controlled to ensure *Practice Assurance Standards* are met
- appropriate supervision and review arrangements are applied
- all work undertaken is adequately recorded
- all principals and staff are made aware of the firm's systems and procedures
- the firm complies with its own procedures
- any complaints from clients are dealt with promptly and effectively.

### Organisation and control

The way in which a firm organises and controls its work will vary according to the size of the firm. Larger firms are likely to need much more sophisticated control and reporting processes than sole practitioners. However, sole practitioners should always bear in mind the possibility of sudden enforced absence, possibly through illness, and make arrangements to ensure that the practice can continue to operate in such circumstances. This may include setting up formal arrangements with another licensed member to cover any period of incapacity.

Firms should ensure that responsibilities

are clearly identified. In a firm with more than one principal, it should be clear which principal is responsible for each assignment. Staff should be clear about, for example, who is able to write letters and send emails on behalf of the firm and who is able to give tax or other judgmental advice to clients.

Files should be well organised and kept up to date. The filing system should be understood by all members of staff and there should be contingency arrangements in place in case of fire or theft. All files and documentation relating to clients (whether in hard copy or electronic form) should be held securely, and confidentiality should be maintained. Receipt and return of client books and papers should be recorded. If any documents, including accounts, are to be made available to third parties, there should be written authorisation from the client. There should be a system of brought forward notification to ensure that matters are attended to promptly and both internally and externally imposed deadlines are met. There should also be a policy regarding file destruction and this policy needs to comply with any relevant laws and regulations (for examples, tax, audit and Anti Money Laundering).

### **IT procedures and security**

Increased dependence on computer systems and mobile data storage and communication devices (USB memory sticks, Blackberries, iPhones) presents specific threats. Firms should ensure that all forms of electronic media are secure. They should also ensure that there is regular back-up of files and protection from unauthorised access and viruses and the contingency arrangements should include action to cope with major systems failure. Where hard copy documentation is not kept, there should be a policy for computer file retention and file destruction. We also advise firms to have email and internet usage policies in place to prevent misuse and possible resultant damage to a firm's reputation.

### **Supervision and review**

All firms (other than sole practitioners with no staff) should have procedures to ensure that work, including that of subcontractors, is adequately supervised and reviewed before it is finalised. Appropriate procedures should be determined by each firm to minimise the risk of errors and misjudgements that might result in sub-standard output.

It is usual practice for senior staff to supervise and review the work of more junior staff. In addition, a firm may decide that in some circumstances, the work of one principal should be reviewed by another. This is likely

to depend on the degree of risk associated with the work. Sole practitioners may decide that there are certain engagements where it is appropriate to have their work reviewed by an external consultant with expertise in the relevant area. Such reviews are part of the assignment process and if review papers are not retained, a note should be made on file that a review has taken place.

### **Recording work**

All significant work undertaken should be recorded on file and sources of information and evidence identified. Care should be taken to make notes of relevant telephone conversations and meetings. All assumptions and estimates should be shown and the thought processes in arriving at judgmental decisions should be recorded. There should be evidence that completed accounts have been agreed by the client. Any oral advice given to a client should be recorded in a file note.

There should be a clear policy indicating who is authorised to advise clients and third parties such as HMRC whether by letter, email or orally. Firms should ensure that they have written authority from the client to act as its agent – for example, in dealing with HMRC – and there should be written evidence of the client's agreement where accounts or other information are to be provided to third parties.

## Complaints from clients

All clients should be informed in writing of the firm's complaints procedures and of their right to complain to AAT. Any complaints from clients should be investigated immediately by a principal of the firm. If, following the investigation, the firm is of the opinion that the complaint is justified, it should do whatever is appropriate to resolve the matter; for example, by remedial work, apology, the provision of information, the return of books or documents or the reduction or repayment of fees.

A firm must at all times hold professional indemnity insurance. The minimum requirements are detailed within AAT's *Professional Indemnity Insurance* policy. Details must be made available if a client asks for them. AAT's factsheet on complaints management will assist you in managing complaints effectively if you receive them.

## Compliance review of firm's procedures

The way in which a firm carries out a review of compliance with its own procedures and these standards, and the frequency of the reviews, will depend largely on the size of the firm and the nature of its work. The review should consider firm issues, such as whether staff are receiving adequate training and whether access to technical material is sufficient. Bank accounts should be reviewed to check that any client money has been dealt with in accordance with AAT's *Clients' Money* policy.

The review should also include a selection of client files to ensure that the work carried out conforms to the terms of the engagement letter.

There should be a sample check of the output of the firm to verify that the correct systems and procedures have been applied and to check the quality of the work carried out, including that of any advice given. A sample of accounts prepared by the firm should be reviewed to check that they are materially correct and comply with statute and other relevant requirements. A sample of tax files should be reviewed to consider both the calculations and the advice given and the review should identify whether submission deadlines were met.

Similar reviews should be carried out in other areas of work. The sample should be selected primarily to focus on higher risk assignments; for example, those where a report is being made to a third party or where the firm has been providing services of a specialist nature. Nevertheless, all offices of the firm, all professional staff and all types of work should be covered over a period of time.

## Examples

Evidence of satisfactory compliance with standard 4 will vary from firm to firm and will depend principally on the size and complexity of the firm and the nature of its clients.

Examples of acceptable and best practice are given on the following page.

## Acceptable practice

### Organisation and control

Adequate guidance is given to all staff on all areas of work undertaken. 

Filing system in place. 

Notes maintained, to assist in the absence of the practitioner or key members of staff. 

File notes kept of all telephone conversations and meetings, highlighting any advice given. 

Reminder system in place for tracking work, so that deadlines are not missed. 

Relevant file notes kept of telephone calls and meetings. 

File retention policy in place. 

Consideration whether sufficient PII cover is in place in line with AAT's *Professional Indemnity Insurance* policy. 

Alternate arrangements made where applicable. 

Maintain a record of clients' books and records held. 

### IT procedures and security

All data is secure, backed-up regularly and retained in a secure location. 

Appropriate security is in place to prevent corruption of firm's system for example, anti-virus, firewalls. 

## Supervision and review

Policy in place for review of files, including hot reviews. 

Evidence of review on file. 

### Recording work

All significant work recorded on file. 

Final copies of tax returns, signed accounts and other reports on file. 

Relevant file note made of any other discussions/enquiries. 

### Complaints from clients

Client informed in writing of complaint procedures. 

Evidence that any complaint from a client has been investigated and resolved. 

Self-reporting any misconduct to AAT. 

### Compliance review

Consideration of need for internal whole-firm review conducted annually. 

Consideration of need for internal cold file reviews of any particularly high risk assignments. 

## Best practice

### Organisation and control

Office procedures manual covering all types of work undertaken by the firm and its other procedures. 

Secure filing and referencing system in place. 

Organisation chart maintained. 

File retention policy in place and decision taken whether any file should be destroyed. 

Firm undertakes annual PII review in conjunction with brokers/insurers. 

Contractual arrangements in place (where applicable) for an alternate in line with AAT's *Continuity of Practice* policy. 

Consideration given to succession planning, where applicable and appropriate arrangements made. 

Require clients to sign for books and records when returned. 

### **IT procedures and security**

Written procedures maintained. 

Disaster recovery and business continuity plans in place. 

Email and internet usage policies in place. 

### **Supervision and review**

Second principal/manager hot reviews where considered necessary. 

### **Recording work**

Fully documented files with indexes maintained. 

Final copies of signed accounts and other reports on file, cross-referenced to key working papers. 

File note made of any other relevant discussions/enquiries. 

Appropriate work programmes on file. 

Procedures documented in manual. 

### **Complaints from clients**

Engagement letter signed and returned by client states complaints procedures. 

Internal procedures to investigate complaints. 

Separate files maintained to show how individual complaints are dealt with. 

### **Compliance review**

External whole-firm and cold file reviews conducted annually. 

Results of cold file reviews given to all principals and staff with a note of any required remedial action. 

Remedial action followed up. 

### **Need help?**

AAT's practice management toolkit contains advice and guidance on how to ensure you maintain quality standards within your firm.

# Useful links

AAT standards, codes and regulations:

[aat.org.uk/professional-standards](http://aat.org.uk/professional-standards)

AAT's Code of Professional Ethics:

[aat.org.uk/professional-standards/ethics](http://aat.org.uk/professional-standards/ethics)

Practice management toolkit:

[aat.org.uk/licensed-members/toolkit](http://aat.org.uk/licensed-members/toolkit)

CPD information and policy:

[aat.org.uk/cpd](http://aat.org.uk/cpd)



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