



Local Audit Guidance

Effective from 1 January 2017

Abbreviations

The following abbreviations are used in this document.

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| Act | Local Audit and Accountability Act 2014 |
| 2006 Act | Companies Act 2006 |
| ICAEW | The Institute of Chartered Accountants in England and Wales |
| ICAI | The Institute of Chartered Accountants in Ireland operating as Chartered Accountants Ireland |
| ICAS | The Institute of Chartered Accountants of Scotland |
| FRC | Financial Reporting Council |
| ACCA | Association of Chartered Certified Accountants |
| CPD | Continuing professional development |
| ISA | International Standards on Auditing (UK and Ireland) |
| ISQC 1 | International Standard on Quality Control (UK and Ireland) 1 |
| PII | Professional indemnity insurance |
| RSB | Recognised supervisory body |
| RQB | Recognised qualifying body |

Introduction

1. ICAEW is a recognised supervisory body (RSB) for the purposes of regulating company (under the Companies Act 2006) and local auditors (under the Local Audit and Accountability Act 2014). As a RSB, ICAEW must have rules setting out how local auditors are regulated. Guidance is provided on how they should be followed.
2. The objective of the ICAEW in issuing these Local Audit Regulations is to make sure that:
 - local auditors maintain high standards of audit work;
 - the reputation of local auditors with the public is maintained;
 - the application of the regulations is fair but firm;
 - the regulations are clear; and
 - the regulations apply to all sizes of firm.
3. Local auditors must comply with the regulations, which require them to:
 - carry out audit work with integrity;
 - be and be seen to be independent;
 - comply with auditing standards;
 - make sure that all principals and employees are fit and proper persons; and
 - make sure that all principals and employees are competent and continue to be competent to carry out audit work.
4. Guidance (in light type) is given to help firms apply the regulations (regulation numbers are given in **bold type**). There is additional guidance in this document.
5. As each firm is different, no guidance can be sufficiently comprehensive to cover all firms. Firms may develop other procedures to comply with these regulations but it is compliance with the regulations that is important.
6. The regulations should be read in conjunction with:
 - ICAEW's Code of Ethics (including the fundamental principles);
 - publications issued by the Financial Reporting Council:
 - *International Standards on Auditing (UK and Ireland)*;
 - *International Standards on Quality Control (UK and Ireland)*;
 - *Ethical Standards*;
 - *Guidance to Recognised Supervisory Bodies on the Approval of Key Audit Partners for Local Audit*.
 - the Code of Audit Practice issued by the comptroller and auditor general;
 - relevant financial reporting standards issued under section 32 of the Act;
 - relevant parts of local audit legislation; and
 - the Professional Indemnity Insurance (PII) Regulations.
7. ICAEW publishes *economia* magazine which often covers articles on audit related matters. In addition, *Audit News*, an email update, is issued by ICAEW and contains information for local auditors, including changes to the regulations.
8. Schedule 1 to section 1 contains definitions and interpretation of these regulations which apply to the regulations and the related guidance. A word or phrase which is defined in schedule 1 is printed in *italics* when used in the regulations.

How to become and continue to be a local auditor

To help firms, a brief step-by-step guide follows. This is a summary, and firms need to pay particular attention to the regulations and guidance provided within this publication. Firms should also refer to material listed in paragraphs 7 and 8 above.

Becoming a local auditor

Obtain an application form from ICAEW.

Visit icaew.com/localaudit

Make sure the firm meets the eligibility criteria.

See regulations 2.02 and 2.03.

Make sure the firm, all principals and employees are fit and proper.

See the guidance on fit and proper status (at the end of Section 2).

Check the firm has adequate professional indemnity insurance (PII).

See regulation 2.02(b) and the separate [PII regulations](#) of ICAEW.

Make sure that all principals and employees who will deal with audit work are competent to do so.

See regulation 3.17.

Are all the principals members of one of the institutes or an affiliate, or a member of the ACCA or a registered auditor or local auditor?

If they are not, non-members need to become local audit affiliates of ICAEW (Section 5).

Complete and return the application form with a cheque for the registration fees and an application form for each key audit partner.

See regulation 4.05.

Remaining a local auditor

At least once a year check:

Principals and employees are fit and proper persons.

See regulation 3.06 and the guidance on fit and proper status (at the end of Section 2).

Principals and employees who carry out audit work are competent and complying with CPD guidelines.

See regulation 3.17 and the CPD requirements.

The firm is competent in the conduct of audits.

See regulation 3.18.

Principals and employees are independent.

See regulation 3.02 and 3.03.

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| Pll is in place and adequate. | See regulation 2.02(b). |
| the firm's quality control procedures are being complied with. | See regulation 3.20 and the guidance on monitoring compliance with the audit regulations (at the end of Section 3). |
| Each audit reappointment has been properly considered. | See regulation 3.05. |
| The annual registration fee is paid promptly. | See regulation 2.13. |
| Submit an annual return. | See regulation 2.10A |
| When necessary make sure: | |
| All changes are notified within 10 business days. | See regulations 2.11 and 5.09. |
| Details of a firm's network and members and affiliates of the network are kept up to date. | See regulation 2.12. |
| New principals and employees are independent, fit and proper, and competent. | See regulations 3.02, 3.05 and 3.20. |
| The firm properly considers each audit appointment to new clients. | See regulations 3.03 and 3.05. |
| Changes in major local audit appointments are notified within 21 business days. | See regulation 3.15. |
| When a new key audit partner is designated, an application is made to the ICAEW Registration Committee. | See regulation 4.05 |

Help and advice

While local auditors must comply with the regulations and the related pronouncements and guidelines, help and advice is available. ICAEW and other organisations (such as training consortia) can offer advice and give practical help.

Telephone numbers

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| Application forms | +44 (0)1908 546 302 |
| Questions on audit regulations | +44 (0)1908 248 250 |
| Professional indemnity insurance | +44 (0)1908 248 250 |
| Public audit register enquiries | +44 (0)1908 248 250 |

Technical enquiries +44 (0)1908 248 250

Ethical enquiries +44 (0)1908 248 250

Advice on practice matters +44 (0)1908 248 250

Support members helpline – calls made in the UK to this number are free. If you are calling from outside the UK you will be charged for this call +44 (0)800 917 3526

Audit and Assurance Faculty +44 (0)20 7920 8493

Audit related courses icaew.com/events

Questions on appropriate qualifications +44 (0)1908 248 250

Application forms and other information, including the Local Audit Regulations can be found at icaew.com/localaudit. Information about PII is at icaew.com/pii

Section 1: Audit Regulations

General

This section deals with the scope and interpretation of the regulations, commencement and how notifications should be made between ICAEW and firms.

Where defined terms (see Schedule 1 to Section 1 of the regulations) are used in the regulations they are printed in *italics*. This does not apply to the guidance.

Guidance is provided to help local auditors to comply with the regulations. However, each firm is different and no guidance can be sufficiently comprehensive to deal with all firms. Firms may develop their own procedures to comply with these regulations, but it is compliance with the regulations that is essential. It should be noted that in some instances, for example regulation **3.09**, the guidance is prescriptive and should be followed.

A copy of any changes or amendments to these regulations will be sent to the audit compliance principal.

Scope and status

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| 1.01 | <p>ICAEW is an RSB under the Companies Act and the Local Audit and Accountability Act and can register firms as local auditors.</p> <p>Guidance</p> <p>The guidance is merely that. It is impractical to provide guidance for every situation that may arise and the regulations may be complied with in different but equally valid ways. However, local auditors must always comply with the regulations, which take precedence over the guidance.</p> |
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Schedule 1

Guidance on definitions and interpretation

Definitions

The Act The Act incorporates Part 42 and schedule 10 of the 2006 Act with changes in relation to local audits by virtue of Schedule 5 to the Act. Therefore references to sections of the Act in these regulations are to the equivalent 2006 Act section as it is applied in relation to local audits by Schedule 5 to the Act.

audit compliance principal The role of the audit compliance principal (ACP) is to be responsible for ensuring the firm complies with the Local Audit Regulations. A major part of the responsibilities is to make sure the monitoring required by these regulations is carried out. The ACP need not carry out the reviews personally but should make sure that they are carried out satisfactorily and any appropriate action taken. The ACP under the Local Audit Regulations can be the same person as under the (company) Audit Regulations.

employee A subcontractor or consultant cannot become a key audit partner (KAP).

EEA auditor While an EEA auditor can be counted towards those who control a local auditor, unless any required aptitude test is taken, an EEA auditor cannot be a key audit partner and so in charge of audit work, see Section 4.

practice notes These give guidance on how auditing standards can be applied and on new or emerging issues.

principal Corporate practices or limited liability partnerships may be principals, where these regulations allow.

key audit partner The Act uses the term key audit partner (KAP) for the individual identified by a local auditor as having an appropriate level of competence to carry out local audits. This individual signs the audit report in his or her own name and in the name of the firm. A KAP can be a principal or employee of the firm.
A responsible individual under the (company) Audit Regulations is not a key audit partner unless designated under regulation **4.01** of these regulations.

Section 2: Eligibility, application for registration, continuing obligations and cessation of registration

This section sets out the eligibility criteria for becoming a local auditor and how to make an application. It then sets out the continuing obligations once registered and how registration can end. Section 4 covers the regulations for key audit partners (KAPs) and Section 5 has the regulations for local audit affiliates.

While there is no requirement in the regulations for a firm's notepaper to carry a legend stating that it is a local auditor, the EU's Services Directive requires such a disclosure to clients and potential clients, together with the name of the member state that the registration is for. A firm is also required to give the name of the register that its details are contained on, with a reference so that the entry can be found. This information can be supplied on a firm's website, as a note on a firm's letterhead or in documents available to the client or potential client.

A suggested wording for disclosure is:

'Registered to carry out local audit work in England by the Institute of Chartered Accountants in England and Wales.'

For the disclosure about the audit register, a suggested wording is:

'Details about our local audit registration can be viewed at icaew.com/localauditorregister, under reference number [this is the firm number provided by ICAEW].'

In addition a firm may describe itself as a firm of local auditors.

2.01

Under the Act KAPs (see Section 4) are local auditors in their own right. However, local auditors can only accept appointment as auditors in accordance with the rules of a RSB, such as ICAEW. ICAEW, as a supervisory body, has responsibilities under the Act to monitor the work of KAPs and auditors they register and to ensure auditors are complying with legal requirements and the requirements of these regulations. Thus an individual, even if a KAP in accordance with Section 4, cannot accept audit appointments unless also a local auditor under these regulations, or the regulations of another RSB.

Eligibility

A key purpose of the Act is to make sure that only those appropriately qualified are appointed as local auditors. Therefore, under the Act, ICAEW, as a RSB, must have rules governing the control of local auditors. For a sole practitioner this is achieved by regulation **2.02** which only allows registration if the practitioner holds an appropriate qualification. Additional conditions for firms that are not sole practitioners are set out in regulation **2.03**.

The appropriate qualification is set out in the Act and the 2006 Act. The institutes and the ACCA are 'recognised qualifying bodies' for the purposes of the 2006 Act. The appropriate qualification they award under the 2006 Act is recognised under the Act which also provides other ways of obtaining an appropriate qualification.

The Act distinguishes between those individuals who are responsible for the audit work on behalf of a firm and those who control the firm. Those who are responsible for the audit work must hold the 'appropriate qualification' (as well as meeting other requirements, see Section 4). Those who control the firm may be drawn from a wider group. As well as holders of the appropriate qualification they can be other local auditors or registered auditors, those who hold the equivalent of an appropriate qualification from another EEA state or who are the equivalent of a local auditor from another EEA member state. This group must hold a majority of the voting rights, or such rights as allow them to direct the firm's overall policy or amend its constitution.

To be eligible for registration a firm must:

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| | <ul style="list-style-type: none"> • be fit and proper; • comply with the PII regulations; and <p>meet the requirement that it is controlled by individuals who hold the appropriate qualification (see Section 4), other registered audit firms or local audit firms, EEA auditors or EEA audit firms (the exact requirements are set out in regulation 2.03).</p> |
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| 2.02 | <p>Regulation 2.02 sets out the conditions which a firm must satisfy to become a local auditor. The firm either meets the conditions of sub-paragraphs (a) to (f) or it does not. Although the concept of fit and proper in section (a) is difficult to define, this is the most important condition. Additional guidance is given at the end of Section 2.</p> <p>If a firm knows about any matter which affects whether it is fit and proper, even if it is nothing to do with audit work, the firm must, in confidence, notify the ICAEW Registration Committee. The committee will not automatically reject the application for registration but will consider the matter further.</p> <p>Clearly, to be fit and proper, a firm should be complying with the fundamental ethical principles. These are contained in the regulations, standards and guidance which can be found at icaew.com/regulations. The following is a summary.</p> <ul style="list-style-type: none"> • Behave with integrity (which implies honesty, fair dealing and truthfulness) in all professional and business relationships. • Be objective in all professional and business judgements. • Only accept or perform work which the member or firm is competent to do unless outside help is obtained. • Maintain professional knowledge and skill at the level required to ensure that work is performed diligently and in accordance with applicable technical and professional standards. • Respect the confidentiality of information acquired as a result of professional work and not disclose any such information unless there is a legal or professional right or duty to disclose nor use it for personal advantage. • Behave professionally by complying with relevant laws and regulations, avoiding any action that may bring discredit to the profession and behave with courtesy and consideration towards all. <p>To assess the competence of the firm to carry out local audit work, the ICAEW Registration Committee may wish to review other work of the firm. This may be other audit work done in accordance with auditing standards or work to give reports to regulators. A firm which is not working to the expected technical and professional standards might not be regarded as fit and proper.</p> <p>If the ICAEW Registration Committee finds out about any matters which a firm did not disclose, this will be viewed more seriously than if the firm had disclosed the information voluntarily. Voluntary disclosure also gives the firm the opportunity to inform the committee about any action it has taken to correct the problem.</p> <p>The PII regulations can be found at icaew.com/pii.</p> |
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| 2.03 | <p>Any principal who is not a member of an institute or the ACCA, or who is not a registered auditor or local auditor must become an affiliate. This is dealt with in Section 5.</p> <p>If all principals and/or shareholders have equal voting rights, at least a majority of the principals/shareholders must hold an appropriate qualification, or be EEA qualified auditors, local auditors, registered auditors or EEA audit firms. However, if voting rights are not held equally then at least a majority must be held by a combination of</p> |
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| | <p>persons who hold an appropriate qualification, EEA qualified auditors, local auditors, registered auditors or EEA audit firms.</p> <p>If the firm's policies are set and implemented by a management board, then a majority of the voting rights in that board must be held by a combination of persons who hold an appropriate qualification, EEA qualified auditors, local auditors, registered auditors or EEA audit firms.</p> <p>In assessing whether a partnership or limited liability partnership is eligible to be registered, the following points should be considered.</p> <p>Voting rights: if a partnership does not have a specific partnership agreement, the Partnership Act 1890 will apply and all partners will have equal voting rights. If the firm is a limited liability partnership and the members do not have a specific agreement to deal with their mutual rights and duties, the Limited Liability Partnership Act 2000 will apply and all members will have equal voting rights.</p> <p>Non-member principals: if any principals are not members or affiliates of one of the institutes, or members of the ACCA or a local auditor or registered auditor, they must become local audit affiliates.</p> <p>Small firms: a firm of two or three principals who do not all hold an appropriate qualification will be eligible only if the partnership or limited liability partnership agreement specifically gives at least a majority of the voting rights to principals who hold an appropriate qualification.</p> <p>A firm may also be controlled by persons who hold an appropriate qualification, EEA qualified auditors, local auditors, registered auditors or EEA audit firms who have such rights under the firm's constitution as enable them to direct its overall policy or alter its constitution.</p> <p>The institutes and the ACCA are recognised qualifying bodies for the purposes of the 2006 Act. So the appropriate qualification they award can be used to count towards the control percentage of the firm for local audit purposes, as can an EEA qualification (regardless of whether the holder has taken an aptitude test).</p> <p>As part of the annual return, firms are asked to reconfirm continued eligibility. If a firm temporarily fails to meet the eligibility requirements, it will not lose its registration if it receives a dispensation under regulations 2.17 to 2.20.</p> |
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Application for registration

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| 2.04 | <p>To enable the ICAEW Registration Committee to assess a firm's ability to do audit work as a local auditor, it may wish to review other work that the firm has already done. This will be work involving auditing standards or expressing an opinion.</p> <p>Firms should request an application form from ICAEW.</p> |
| 2.05 | <p>Under regulation 2.05d, the ICAEW Registration Committee may decide that it can only properly consider a firm's application after it has more information about the firm. The committee may decide this is best achieved by a monitoring visit to the firm.</p> <p>A firm can apply for a review of a decision to reject registration or to grant it subject to restrictions or conditions. Details of the review process are in regulations 8.05 to 8.07.</p> |

Continuing obligations

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| 2.07 | The effect of regulation 2.07 is that a firm which, for any reason, has ceased to be eligible for registration must not continue with an audit appointment unless it obtains a dispensation in accordance with regulations 2.17 to 2.20 . |
| 2.09 | When ICAEW serves a notice under this regulation, the notice will specify by when the firm must deal with the matters in the notice. ICAEW will always try to give reasonable time for the firm to respond but in some cases it may be necessary to set a short time for the firm to respond. A notice requiring information may also be served under the Act and the firm must supply the information according to the terms of the notice. |
| 2.10 | A principal or shareholder in a local auditor may be another registered auditor, a local auditor or an EEA audit firm. This regulation then requires that its interests are represented at meetings by an individual who has received audit training and is either the holder of an appropriate qualification or is an EEA auditor. It is important that decisions are taken at meetings by those who have audit experience. |

Changes in circumstances

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| 2.11 | <p>The eligibility criteria are set out in regulations 2.02 and 2.03.</p> <p>If a firm temporarily loses its eligibility, it may not necessarily lose its registration as the ICAEW Registration Committee can waive the eligibility requirements (see regulations 2.17 – 2.20). Therefore, firms should notify the ICAEW as soon as possible if they are planning any changes so that registration is not interrupted.</p> <p>A firm should also, under regulation 2.11c, notify ICAEW of any matter affecting its financial stability. This includes a principal entering into an individual voluntary arrangement, or a firm reaching a similar arrangement.</p> <p>ICAEW has a duty to keep the information on the public audit register up to date. To do this, firms must inform ICAEW of changes. Also, a firm that is a member of a network or has affiliates must also keep up-to-date information about the names of these other firms.</p> <p>Before a local auditor appoints a new key audit partner it must seek the approval of the ICAEW Registration Committee, see Section 4.</p> <p>If a firm changes its legal status, for example, from a partnership to a limited liability partnership, the new entity will need to register. The registration of the 'old' firm does not carry over. This also applies to a sole practitioner who becomes a partnership or a limited company; the audit registration does not carry over and a new application is needed from the new firm.</p> |
| 2.12 | <p>Making the list of firms and affiliates in a network available to the public would normally mean that the list is held on the firm's website or is on public display at the firm's office or is otherwise available on request.</p> <p>ICAEW has a duty to keep the information on the public audit register up to date. To do this, firms must inform ICAEW of changes. Also, a firm that is a member of a</p> |

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| | network or has affiliates must keep up-to-date information about the names of these other firms. |
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Fees

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| 2.14 | If a firm's application is not accepted, the first registration fee will be refunded. |
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| 2.15 | The ICAEW Registration Committee may decide that, following a monitoring visit to a firm, it wishes to return to check that the firm is making the necessary improvements in its audit work. A charge may be made for any such visits, although an estimate would normally be given. |
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Dispensation

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| 2.20 | The period of 90 days' dispensation cannot be extended by the ICAEW Registration Committee. If the situation that gave rise to the dispensation is not put right in the time allowed, the firm's registration will end. |
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Cessation of registration

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| 2.21 | A firm may ask for a review if its registration is to be withdrawn under regulation 2.21c . Withdrawal at the firm's request, or because the firm no longer exists, cannot lead to a review. If a firm which is no longer registered wishes to register again it can apply in the normal manner. |
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| 2.22 | The ICAEW Registration Committee may wish to satisfy itself that a firm, once de-registered, no longer has any audit clients. |
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| 2.23 – 2.24 | Regulation 2.3 stipulates a firm cannot escape disciplinary action by de-registering. If, in the process of de-registering, the ICAEW Registration Committee places a condition on a firm and that condition is broken then disciplinary action can be taken. There is a continuing obligation to deal with requests for access to audit working papers under regulation 3.09 . Finally, de-registering does not remove the firm's obligation to pay outstanding fees. |
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Guidance on fit and proper status

Background

1. Regulation **2.02** expressly requires a firm to be fit and proper. Regulation **3.06** puts the responsibility on the firm to make sure that the principals and employees are and continue to be fit and proper. This section gives guidance to firms on this requirement.
2. The Act requires ICAEW, as an RSB, to have adequate rules and practices to make sure local auditors are fit and proper to be appointed as local auditors. This section helps firms to assess the fit and proper status of the firm and its principals and employees.

3. As part of the criteria for registration, ICAEW requires a firm to be fit and proper. The application for registration looks into a firm's financial integrity, disciplinary record and professional standing (see appendix A). An applicant will be asked, for example, whether it has failed to satisfy creditors in full or been refused the right to carry on any trade, business or profession for which a specific licence, registration or other authority is required.
4. Firms should comply with the fundamental ethical principles to be fit and proper.
5. If a firm admits that it does not meet all the fit and proper standards, it may still be eligible for registration. However, the ICAEW Registration Committee will weigh up the implications of all the circumstances. A firm which knowingly withholds information from the committee will not be considered fit and proper to act as an auditor.

Principals and employees

6. For a firm to be fit and proper, the principals and employees involved in audit work must also be fit and proper. Under the Local Audit Regulations a local auditor must make sure that anyone who is or will be employed by, or associated with, the firm in connection with audit work is fit and proper.
7. A firm's procedures must cover:
 - the sole practitioner or the principals;
 - employees involved in audit work (including students);
 - consultants involved in audit work on the firm's behalf;
 - subcontractors doing audit work on the firm's behalf; and
 - anyone else whose work a principal relies on when carrying out audit work.

Some of the auditing standards cover some common situations. These are:

- ISA 610 'Considering the work of internal audit'
- ISA 600 'Using the work of another auditor'
- ISA 620 'Using the work of an expert'.

These should be followed where appropriate.

8. The ICAEW Registration Committee may take account of any matters affecting the fit and proper status of those people listed in paragraph 7.

Partnerships and corporate practices

9. The Act recognises that partnerships may include partners which are bodies corporate. So, as well as extending to the partners, in such a firm the fit and proper procedures should extend beyond the corporate partner to any:
 - director or controller of the corporate partner;
 - body corporate in the same group as the corporate partner; and
 - director or controller of any body corporate above.
10. The Act also notes that the fit and proper procedures should include those associated with a practice which is a body corporate. They are any:
 - director or controller of the body corporate;
 - other body corporate in the same group; and
 - director or controller of any body corporate above.

Procedures

11. The procedures which a firm should introduce to assess the fit and proper status of principals, employees and others detailed above will vary depending on the size and structure of the firm.
12. An example of a 'fit and proper' form for individuals is at appendix B. All new recruits, employees newly involved in audit work and people who fall into the categories described in

paragraphs 7 to 10 for the first time should be required to fill in such a form. Firms may find it easier to apply these procedures to all employees rather than make artificial distinctions.

13. At regular intervals a firm should have all principals and employees revise and update their last return or complete a new one. Firms might find it easier to update this information annually as part of their independence confirmation procedure or appraisal system. Principals and employees must be encouraged to immediately notify the audit compliance principal of anything that has a bearing on their fit and proper status. Firms are reminded that, in accordance with quality control standards, they should annually obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent.
14. If the firm is required to consider its own fit and proper status, a form similar to appendix A (which is similar to that used in the application form) would be appropriate. This could be used when a firm reviews its fit and proper status as part of its annual review of compliance with the audit regulations.
15. The procedures in paragraphs 11 to 13 above may seem excessive for a sole practitioner with no employees. But a sole practitioner must be aware of the situations described in this guidance. The checklists provided in appendices A and B also apply to the sole practitioner. Regulation 2.11 requires a firm to notify the ICAEW Registration Committee of any matter that may bring the fit and proper status of the firm into doubt. Formal consideration of any matter raised by the firm can be recorded when the annual compliance review is completed.

Cause for concern or notification to ICAEW

16. If a firm receives information, from any source, that indicates a principal or employee may not be a fit and proper person to be involved with audit work, the firm must evaluate its own fit and proper status. Matters a firm should consider include the:
 - seriousness of the matter;
 - timing of the event;
 - level of the individual's or body's involvement in audit work; and
 - likely risk to clients.
17. For example, a recent disciplinary finding against a key audit partner would weigh more heavily than a 10-year-old finding of misconduct (and a reprimand by a professional body) against a tax principal who does not hold an appropriate qualification or satisfy the requirements of regulation 4.01a and so does not count towards control requirements and is not involved in audit work.
18. In the same way that a firm's failure to disclose information about its fit and proper status would jeopardise its continued registration, a failure by a principal, employee or other person to answer related questions truthfully would cast serious doubt on the suitability of the person to be involved in audit work.
19. If in doubt, the firm should notify ICAEW of the circumstances and the ICAEW Registration Committee will advise on the firm's fit and proper status. The following are matters which should be reported:
 - offences involving dishonesty, fraud or cheating;
 - imprisonable offences under the companies acts, financial services legislation, the law relating to insolvency, insider dealing, or similar laws in the areas of corporate or financial services;
 - conviction for any offence which involves a prison sentence;
 - serious breaches of the investment business, audit, insolvency or clients' monies regulations;
 - carrying out professional work in a grossly incompetent manner; and
 - carrying out professional work in a manner which does not comply with the FRC's ethical standards and relevant ethical pronouncements.

Appendix A

Fit and proper form for a local auditor

Set out below are the questions that a firm should ask itself to assess its own fit and proper status. Similar questions are on the application form when a firm first applies for registration. A sole practitioner should answer these questions in a personal capacity as well as for the firm. The answers will be 'yes' or 'no', but a 'yes' will need further explanation.

Yes No

Financial integrity and reliability

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| 1 | In the last 10 years has the firm made any compromise or arrangement with its creditors, or otherwise failed to satisfy creditors in full? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 | In the last 10 years has the firm been the subject of any insolvency proceedings? | <input type="checkbox"/> | <input type="checkbox"/> |

Civil liabilities

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| 3 | In the last five years has the firm been the subject of any civil action relating to its professional or business activities which resulted in a judgment or finding against it by a court, or a settlement (other than a settlement consisting only of the dismissal by consent of a claim against it and the payment of its costs) being agreed? | <input type="checkbox"/> | <input type="checkbox"/> |
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Good reputation and character

Note: There is no need to mention offences which are spent for the purposes of the Rehabilitation of Offenders Act 1974 or (in the case of a firm which is a sole practice) offences committed by any individual before the age of 17 (unless committed within the last 10 years) or road traffic offences that did not lead to a prison sentence.

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| 4 | In the last 10 years has the firm been: | Yes | No |
| | convicted by a court of any criminal offence? | <input type="checkbox"/> | <input type="checkbox"/> |
| | refused or restricted in the right to carry on any trade, business or profession for which a specific licence, registration or other authority is required? | <input type="checkbox"/> | <input type="checkbox"/> |
| | refused entry to any professional body or trade association, or decided not to continue with an application? | <input type="checkbox"/> | <input type="checkbox"/> |
| | reprimanded, warned about future conduct, disciplined or publicly criticised by any professional or regulatory body? | <input type="checkbox"/> | <input type="checkbox"/> |
| | made the subject of a court order at the instigation of any professional or regulatory body? | <input type="checkbox"/> | <input type="checkbox"/> |
| | investigated on allegations of misconduct or malpractice in connection with its professional or business activities which resulted in a formal complaint being proved but no disciplinary order being made? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 | Are you currently undergoing any investigation or disciplinary procedures as described in 4 above? | <input type="checkbox"/> | <input type="checkbox"/> |

Appendix B

Example of a fit and proper form for individuals

Set out below are the questions that a firm should ask each principal, employee or other individual involved in or connected with audit work to allow the firm to assess the individual's fit and proper status. The answers will be 'yes' or 'no' but a 'yes' will need further explanation.

Yes **No**

Financial integrity and reliability

- | | | | |
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| 1 | In the last 10 years have you made any compromise arrangement with your creditors or otherwise failed to satisfy creditors in full? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 | Have you ever been declared bankrupt or been the subject of a bankruptcy court order in the UK or elsewhere, or has a bankruptcy petition ever been served on you? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 | Have you ever signed a trust deed for a creditor, made an assignment for the benefit of creditors, or made any arrangements for the payment of a composition to creditors? | <input type="checkbox"/> | <input type="checkbox"/> |

Civil liabilities

- | | | | |
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| 4 | In the last five years have you been the subject of any civil action relating to your professional or business activities which has resulted in a judgment or finding against you by a court, or a settlement (other than a settlement consisting only of the dismissal by consent of a claim against it and the payment of its costs) being agreed? | <input type="checkbox"/> | <input type="checkbox"/> |
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Good reputation and character

Note: There is no need to mention offences which are spent for the purposes of the Rehabilitation of Offenders Act 1974, offences committed before the age of 17 (unless committed within the last ten years) or road traffic offences that did not lead to a prison sentence.

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| 5 | Have you at any time pleaded guilty to, or been found guilty of, any offence? | <input type="checkbox"/> | <input type="checkbox"/> |
| | If so, give details of the court which convicted you, the offence, the penalty imposed and date of conviction. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 | Have you ever been disqualified by a court from being a director, or from acting in the management or conduct of the affairs of any company? | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 | In the last 10 years have you been: | | |
| | • refused the right or been restricted in the right to carry on any trade, business or profession for which a specific licence, registration or other authority is required? | <input type="checkbox"/> | <input type="checkbox"/> |
| | • investigated about allegations of misconduct or malpractice in connection with your professional activities which resulted in a formal complaint being proved but no disciplinary order being made? | <input type="checkbox"/> | <input type="checkbox"/> |

- the subject of disciplinary procedures by a professional body or employer resulting in a finding against you?
 - reprimanded, excluded, disciplined or publicly criticised by any professional body which you belong to or have belonged to?
 - refused entry to or excluded from membership of any profession or vocation?
 - dismissed from any office (other than as auditor) or employment or requested to resign from any office, employment or firm?
 - reprimanded, warned about future conduct, disciplined, or publicly criticised by any regulatory body, or any officially appointed enquiry concerned with the regulation of a financial, professional or other business activity?
 - the subject of a court order at the instigation of any regulatory body, or any officially appointed enquiry concerned with the regulation of a financial, professional or other business activity?
- 8 Are you currently undergoing any investigation or disciplinary procedures as described in 7 above?

Section 3: Conduct of audit work

The Act states that ICAEW, as a RSB, must have certain rules and practices to govern the conduct of firms registered to do audit work and the way they do that work. Local auditors must:

- be independent;
- carry out their work with integrity;
- be fit and proper;
- keep to technical standards;
- be competent and continue to be competent; and
- be able to meet claims against them that may arise from audit work.

There are also other requirements, such as how firms should sign audit reports. Finally there is a requirement that ICAEW monitors local auditors to ensure they are complying with these regulations. For some types of audit, this monitoring must be conducted independently of ICAEW.

The law requires that the rules relating to the scope and conduct of audit work have to be written by an independent body. Thus ICAEW has adopted the auditing, quality control and ethical standards of the Financial Reporting Council (FRC). The standards adopted are:

- the International Standards on Auditing (UK and Ireland), which deal with the conduct of individual audits;
- the International Standards on Quality Control (UK and Ireland) 1, which deals with the overall system of quality control established by the local auditor; and
- the ethical standards, which set out the ethical obligations of local auditors and their personnel with respect to auditor independence and objectivity.

The law also requires the comptroller and auditor general to develop codes of audit practice and related guidance. There may be different codes for the audits of different relevant authorities. In addition guidance may be issued to expand or supplement the provisions of a code.

Competence, fit and proper status of principals and employees, and the ability to meet claims are matters that are usually dealt with when a firm first registers. These requirements are dealt with in Section 2. Once registered, ICAEW monitors firms to check that they continue to meet their obligations. Monitoring is by annual returns and visits to firms.

Firms must make sure that they continue to meet the requirements of the audit regulations. For most firms this means having procedures for doing audit work, and checks to make sure that the procedures are followed. The procedures and checks apply to individual audits (eg, audits are conducted according to the code of audit practice, any related guidance and auditing standards) and also to a firm's audit practice (for example that principals and employees maintain their competence to undertake audit work).

Firms of different sizes and with different types of client will adopt different procedures to comply with these regulations. However, all firms will be aiming to provide a high-quality and cost-effective service which complies with the regulations.

Firms usually have professional indemnity insurance to meet claims against them. However, another aspect of this is the use of appropriate procedures, including review procedures, to reduce the possibility of a matter occurring that could give rise to a claim.

The following guidance deals with matters that relate to firms' audit work.

Independence and integrity

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| 3.04 | Regulation 3.04 prevents a firm auditing any entity where that entity has some form of shareholder interest in the firm, is a principal in the firm, or can exert influence over the local auditor. It also prevents a firm auditing an entity where the firm is either a principal or shareholder in the client, or can exert influence over the entity. The extent of influence is not defined but firms should consider whether an informed third party would consider that influence could exist, even if not being exercised. For |
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| | <p>the avoidance of doubt, the forms that such influence can take do not include any influence that arises as a result of the auditor’s normal relationship with the entity.</p> <p>Local auditors are also reminded the ethical standards and in particular ISQC1 includes material about situations where a firm should consider accepting or continuing an audit appointment.</p> <p>The main considerations which should be followed are contained in the ICAEW Code of Ethics. This is available at icaew.com/ethics. This in turn requires firms to follow the FRC’s ethical standards. Firms should refer to these documents for a fuller discussion of the matters that can threaten a local auditor’s independence.</p> <p>Contracts of employment (with employees, subcontractors or consultants) may include the requirement to comply with regulation 3.02. If such contracts are not used, for example in the case of principals, a separate statement or appropriate clause in a partnership agreement is advisable.</p> <p>As well as material on independence, other relevant statements (for example on conflicts of interest) are on the ICAEW website.</p> |
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| 3.05 | <p>Integrity means more than just honesty. It includes fair dealing, truthfulness and the desire to follow and maintain high standards of professional practice.</p> |
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| 3.06 | <p>Guidance in Section 2 suggests how to assess the fit and proper status of principals and employees, as required by regulation 3.06. There are also sample checklists that firms may find useful in making their assessments. This regulation also applies to subcontractors and consultants who may help with audit work. They must satisfy the same requirements as anyone employed directly by the local auditor.</p> <p>It is recommended that every principal, employee, subcontractor and consultant should confirm their fit and proper status every year. This only applies to those, including principals, who deal with audit work. But it may be easier for firms to apply these procedures to all employees, instead of making distinctions that may be a little artificial. In any case, individuals must be encouraged to notify the audit compliance principal of any event that affects their fit and proper status as soon as it occurs.</p> <p>When a local auditor subcontracts work to another firm or an individual, whether registered or not, there should be a formal engagement letter or contract. This should make clear who is responsible for the different parts of the accountancy and audit work. A subcontractor should be treated as an employee for the purposes of the work.</p> <p>Some of the auditing standards deal with procedures for auditors who use the work of others in connection with the audit. These are:</p> <ul style="list-style-type: none"> • ISA 610 ‘Using the work of internal audit’; • ISA 600 ‘Special considerations - audits of group financial statements (including the work of component auditors)’; and • ISA 620 ‘Using the work of an auditor’s expert’. |
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| 3.07 | <p>Regulation 3.07 is particularly important for mixed practices or associated firms whose principals are not KAPs, whatever their qualification. The regulation does not prevent such people from taking part in audit work. However, responsibility for the overall direction of the audit, its supervision, performance and reaching a conclusion</p> |
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that sufficient and appropriate audit evidence has been obtained prior to signing the audit report must always be in the hands of KAPs.

Where a local auditor uses, for the purposes of its own audit work, individuals resident in another country, it should undertake and document appropriate steps to establish, within the confines of the law of that other country, that the individuals are fit and proper, independent and competent to undertake audit work.

Technical standards

Each audit must be conducted in accordance with the legislation, the Code(s) of Audit Practice and related guidance set by the National Audit Office and relevant auditing and ethical standards.

3.08

The requirements include:

- appointment;
- ceasing to hold an appointment; and
- the responsibilities of the auditor to report whether financial statements are in accordance with the legislation.

The legislation would normally be the Local Audit and Accountability Act.

This also includes statutory instruments and other regulations etc made under the Act and legal instruments made by an oversight body using powers delegated under the Act.

3.09

Origin and purpose

Under the previous arrangements for local audit it was the practice that on a change of an audit appointment the predecessor auditor would pass its audit files to the successor auditor. This practice is now an obligation in the Act that a RSB must have adequate rules and practices designed to ensure that a person ceasing to hold office as a local auditor 'makes available to his successor in that office all relevant information which he holds in relation to that office'.

The purpose of the guidance is to help maintain the effectiveness (including cost effectiveness) and the efficiency of the audit process in the context of a change of auditor.

This guidance is separate from and additional to ICAEW's Code of Ethics, which sets out procedures to be followed before accepting a professional appointment.

Timing

A request for relevant information may be made by a successor once the successor has been formally appointed to the audit client. In all cases the provision of information should be on a timely basis.

Procedure

Before making a request for relevant information, the successor should, as part of its planning, consider the need to make a request to the predecessor under regulation **3.09**, and the extent of that request. This will involve judgement by the successor in each case, to ensure that the necessary request is made and an unnecessary request is not. It is also important to assess what information will be relevant in each case and what will not.

It does not follow that a successor is required or expected to request information in every case, or to request extensive information in a case in which only limited information is necessary. The successor's consideration will include consideration of what work it would do with any information provided to it pursuant to a request. There are specific references to reviewing the predecessor's audit work in ISA 510 (opening balances), ISA 710 (comparatives) and ISA 300 (planning). Accordingly, information is likely to be necessary in particular for such purposes.

The provision of information under this regulation will be achieved more efficiently where the successor auditor is as specific as possible as to the nature of the information being sought. The successor should therefore, wherever possible, avoid a request framed simply as a request for 'all relevant information held by the predecessor and concerning the audited entity' or 'all relevant information held by the predecessor in relation to the office of auditor'. Thus the successor should strive to identify the information required, or the type of information required, as precisely as possible.

For example, where relevant information is requested by the successor, the information will normally be contained in the working papers produced by the predecessor, and the appropriate request may therefore be for some or all of those working papers. In some audits there may be ICAEW or FRC guidance or codes or guidance issued by the comptroller and auditor general indicating the working papers expected for such an audit.

Where the information related to audit work is requested by the successor but is not filed on the current audit file but, for example, on a permanent or systems file, or there is a reference to a prior audit file, access should be provided by the predecessor to this information.

The predecessor should be prepared to assist the successor by providing oral or written explanations on a timely basis, to assist the latter's understanding of the audit working papers.

Period

Normally the period for which relevant information is requested will be in respect of any audit report relating to a period falling between the beginning of the last financial statements on which the predecessor reported and the date of cessation of the predecessor's audit appointment.

A successor may consider that it needs to have information in addition to that within the period mentioned above. In the normal case, in the interests of cost and efficiency, the successor should first review the information already provided. If, after that review, a judgement is made that additional information is needed, the additional information sought should be described in writing, as precisely as possible.

The successor should be prepared to provide reasons which demonstrate that the additional information is 'relevant' information and therefore within the regulation. Here, as elsewhere, the successor should be prepared to confirm the information is needed to aid its audit work for the audit client and not for some other purpose.

Other points

The request for information may be made of the immediate predecessor only.

It would be usual for the basis on which the information is to be provided to be documented in writing by an exchange of letters between the two local auditors, copied to the audited entity. Guidance on suitable letters is available on the ICAEW

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| | <p>website as part of a technical release. Although drafted for company audit, the principles are relevant for local audit.</p> <p>There is no obligation to allow the copying of working papers but it would be usual to allow copying of extracts of the books and records of the audit client that are contained in the audit working papers. Generally speaking, where access to relevant information is necessary, the practical arrangements to allow that access to be provided in a cost effective and efficient way should be discussed and agreed between the successor and the predecessor.</p> <p>A request for information under the regulation should not be made other than in connection with the successor's audit. The successor should refuse to accept an additional engagement, such as to act as an expert witness or to review the quality of the predecessor's audit work, where the engagement would involve the use of the information obtained by it under the regulation. In any event, the successor should not comment on the quality of the predecessor's audit work unless required to do so by a legal or professional obligation.</p> <p>The reference in the regulation to the information not being disclosed to a third party includes to the audit client. This does not prevent the successor discussing the information with the client where to do so is a necessary part of its audit work. Nor does it prevent the provision of this information to any third party if that is required of the successor by a legal or professional obligation.</p> |
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Local auditor

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| 3.10 | <p>Guidance included within the Code of Audit Practice, related guidance, auditing standards and practice notes gives assistance on how to apply the standards.</p> <p>A local auditor must comply with these regulations, the legislation, the Code of Audit Practice and related guidance and auditing standards and quality control standards as applied in accordance with the explanatory and other material published therewith.</p> |
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| 3.11 | <p>Both regulation 3.11 and regulation 3.12 are about audit working papers.</p> <p>ISA 230 (audit documentation) details the content of audit working papers. Other ISAs (for example ISA 300 (planning an audit of financial statements)) detail other documentation that needs to be created during the course of an audit. All these papers must be kept for a period of six years starting with the end of the accounting period to which the papers relate.</p> <p>The audit working papers and other records do not have to be on paper but could instead be held on microfilm or on computers. Whatever method of storage is used, the auditor must also keep a mechanism for gaining access to those papers.</p> <p>Firms should have a procedure to make a final decision, before any papers are destroyed, that the files are unlikely to be needed again. In cases of doubt they should be kept. The decision could be to destroy every file, or to make some exceptions. Firms should also bear in mind that some papers in the audit file may serve another purpose. Care is needed that these are not destroyed when a longer retention period may apply. A firm should keep appropriate records of what files it has destroyed.</p> |
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| <p>3.12</p> | <p>Local auditors will sometimes subcontract some of their audit work to another firm. This could be because the audit client is in a remote location and it is more cost-effective to engage a local firm to do any necessary work and it is that relationship to which this regulation is directed.</p> <p>If this happens, the firm has to be registered under the Act first and foremost. Secondly, under regulation 3.12, all the audit working papers created by the other firm have to be returned to the local auditor for retention in accordance with regulation 3.11. Alternatively, the other firm may keep the papers. In this case the local auditor must make sure that the other firm will keep the papers for as long as the auditor would. Also the local auditor must have the right to have access to those papers at any time, and retrieve them if necessary. As with papers held directly by the local auditor, any decision to destroy the papers should be made by the local auditor and not the other firm.</p> <p>If a local auditor considers that, despite any agreements with the other firm, gaining access to the papers may prove difficult, the local auditor should consider changing the arrangements. If this is not possible, the local auditor should document the steps taken to obtain access to the audit working papers and the reasons why it cannot and any evidence of those steps or reasons. The local auditor should also document how it has satisfied itself as to the matters dealt with in those papers and any implications for the audit opinion. The local auditor should use the principles in ISA 230 (audit documentation) and ISA 500 (audit evidence) when considering such matters.</p> <p>Whatever arrangements are made between two firms, they should be recorded in a suitable letter of engagement or contract. If the other firm is itself not subject to the audit regulations it may be appropriate to include within the letter the full text of the above regulations. The letter may also cover such matters as the scope of work to be undertaken by the other firm.</p> |
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| <p>3.15</p> | <p>The Audit Quality Review team of the FRC is responsible for the review of audits of major local public bodies. These are the audits of relevant authorities which meet the criteria set out in regulations issued by the Secretary of State. The ICAEW Registration Committee must be informed if a local auditor gains such an audit client or an existing audit client becomes a major local audit client. Local auditors may also find it useful to inform the ICAEW Registration Committee if a client ceases to be a major local audit client even though there is no cessation of office. It would also be useful if, when providing this information, the notification contained details of the financial year end of the first or last audit that the firm undertakes.</p> <p>Where the Audit Quality Review team undertakes a full scope inspection visit to a local auditor which includes the review of firm-wide procedures, the ICAEW Registration Committee will give the firm a waiver from compliance with this regulation. In these cases the firm does not need to notify when a new major local audit is acquired (or an existing audit client becomes a major audit client).</p> |
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| <p>3.16</p> | <p>An audit report has to include the description 'local auditor' but there is nothing to prevent a firm adding any other appropriate description, such as 'chartered accountants'.</p> <p>The law requires that the KAP in charge of the audit should sign the audit report in his name and in the name of the firm. The names of the firm and the individual must also be given.</p> |
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| | <p>Legislation other than the Act or the constitution of an entity, may call for a report from a local auditor. A firm may choose to sign these reports as a local auditor. There is nothing to prevent a firm doing this and the work would not come under these regulations. However, if ICAEW receives a complaint about this work, enquiries may be made into the general standard of the firm's audit work. If necessary, enquiries may be made into other work which the firm is signing as a local auditor or conducting in accordance with auditing standards. Regulation 6.07 gives the ICAEW Registration Committee the power to enquire into other work undertaken by the firm.</p> <p>There is nothing to stop firms adding the name of the KAP who was in charge of the audit and having the audit report signed by this person in his own name where this is not required by law. However, the statutory protection against any additional civil liability (if such a liability exists) is not extended in these situations. If a firm intends to do this, the engagement letter should make it clear that if any claim arises it would be against the audit firm and that the individual, by reason of being named and by signing the auditor's report, is not subject to any civil liability to which he would not otherwise be subject.</p> |
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Maintaining competence

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| <p>3.17</p> | <p>KAPs and employees who are members of another accountancy body or institute should ensure they follow the guidance on continuing professional development (CPD) issued by both their own accountancy body or institute and that of the local auditor for whom they are performing the work.</p> <p>ICAEW has issued guidance on how individuals may maintain their competence. This is in the regulations, standards and guidance on the ICAEW website icaew.com/regulations. CPD information is available from icaew.com/cpd. ICAS has issued guidelines on CPD to its members and the ICAI has issued CPD regulations.</p> <p>Audit affiliates and local audit affiliates who are also KAPs should follow the guidance of ICAEW as well as that of their own accountancy body or institute, where it differs.</p> |
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| <p>3.18</p> | <p>Under regulation 3.18 a firm must be able to ensure its competence in the future. Although a firm's ability to audit rests with its principals and employees, these individuals change. It is only by using audit manuals, programmes, checklists, procedures and so on that a firm has a body of knowledge beyond that of the individual principals and employees. These provide the link between the people currently in the firm and those who will join in the future.</p> <p>The amount of formal documents and procedures will vary according to the nature of the firm's clients. Their use is likely to vary even between different clients of the same firm. Even the smallest firm is likely to need some documentation such as audit programmes and checklists. As a firm grows in size, it will probably develop procedures to help employees and principals use the audit programmes and checklists in order to carry out audit work and comply with the audit regulations.</p> <p>Any documentation used by a firm in its audit work must be kept up to date if a firm is to retain its audit competence. Smaller firms might join some form of updating service to help them with this.</p> |
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| <p>3.19</p> | <p>It is important that those involved in auditing should understand the:</p> <ul style="list-style-type: none"> • requirements imposed on the firm by statute and regulation; |
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- legal and other requirements related to financial statements;
- procedures the firm depends on to ensure it does audit work competently; and
- auditing and ethical standards and codes of practice.

A firm needs to communicate its requirements and procedures effectively if everyone is to understand them. This is especially important since principals, employees, laws and regulations change. Training can achieve much of this. The review of delegated work required by ISA 220 Quality control for an audit of financial statements, and the checks performed as part of the annual compliance review, can then reveal successful communication – or the lack of it.

Monitoring

3.20

Since these regulations require local auditors to comply with the codes of audit practice and related guidance, auditing, ethical and quality control standards, then the monitoring required by this regulation should also include how the firm is complying with those standards.

An annual review can focus simply on the important point of whether audit work is being carried out in accordance with these regulations and ISAs and that the firm's system of quality control complies with these regulations and ISQC1. However, a thorough review of a firm's work can bring benefits and assurance far in excess of the above requirement.

A thorough review could identify areas in which changes could be made to enhance audit quality, situations where clients need extra services, or where excessive audit work can be reduced. Both benefit the firm and provide assurance that the firm is not needlessly exposed to risk through poor work, whatever its cause.

The annual compliance review in its simplest form is in two parts. The first part covers a firm's obligations under the audit regulations such as:

- independence and integrity;
- fit and proper status;
- competence;
- appointment and re-appointment;
- professional indemnity insurance; and
- continuing eligibility;

and under ISQC1 such as:

- leadership responsibilities;
- consultation arrangements;
- human resources; and
- complaints.

The second deals with cold reviews of completed audit work to ensure ISAs and the firm's audit procedures were followed. It is relatively easy to decide each year what is needed for the first part. The second part is more difficult and involves judgements on the number and frequency of reviews.

How many and which client files should be cold reviewed?

Firms will consider factors such as employee turnover, high risk clients, changes to auditing standards and new statutory and accounting standard requirements in deciding which files to review. Some firms will select audits for these reasons and then a sample of other files.

However, monitoring experience has shown that if a single file is representative of a key audit partner's work, little may be gained from doing more. A representative sample of two or three audits for each key audit partner should be enough.

One approach to the question of frequency is simply to decide that the work of each key audit partner should be reviewed each year. Completed audit files would be selected and reviewed to make sure that the auditing standards and the firm's procedures had been followed. For many firms this may be the easiest procedure to adopt. In deciding how often to review someone's work, firms will consider factors similar to those used when deciding which files to review. Indeed, there may be particular reasons where the work of a particular key audit partner is reviewed more frequently.

Sole practitioners, firms with only one key audit partner and other small firms may have few audit clients. However, sole practitioners and smaller firms do face the same problems of change as described above and their KAPs also tend to retain their own portfolios of clients for lengthy periods. This very familiarity may cause problems and to guard against this a sample of files should be reviewed each year.

In addition, such firms should note that ISQC1 does not permit the audit partner or the engagement quality control reviewer for a particular audit to undertake a cold file review on that audit. It may be that there is another individual in the firm who, although not a KAP, is very experienced in current auditing requirements. Assuming that this individual did not take part in the audit, the firm may decide that this individual would be a suitable person to undertake the review. If this is not possible, then the firm should use an external reviewer at least once every three years.

Some well-organised firms have well-defined procedures to control the quality of audit work and the resulting audit opinions. This would be another factor in deciding how often the work of KAPs is reviewed. However, if the work of all KAPs is not reviewed each year, then it should be covered over no more than a three-year period, if this is appropriate to the circumstances of the firm.

Whatever approach a firm adopts for cold file reviews, it should be ready to justify that approach when requested by the ICAEW Registration Committee.

The compliance review and cold file reviews carried out as part of that review are likely to vary in formality according to the size of the firm. However, every firm should be able to provide evidence of its review and, where appropriate, any action taken.

All KAPs should be given the results of the monitoring exercise at the earliest opportunity. If improvements are needed, any necessary changes should be made as soon as possible.

There is no need for the firm to conduct the review itself. Some firms may find it more practical and cost effective to use a service provided by ICAEW or some other organisation. In choosing a reviewer, it's important the firm is satisfied that the reviewer has sufficient experience to undertake the review.

Sole practitioners may also benefit from this exercise if it is carried out by another local auditor. This could highlight practical ways for a firm to improve procedures and to deliver a better service to clients. Practitioners may also benefit from reviewing another practice.

Using an external reviewer does not reduce the firm's own responsibility for the review or for ensuring that any necessary action is taken.

Further guidance on monitoring compliance with the audit regulations

Introduction

1. Audit Regulation **3.20** requires a local auditor to monitor its compliance with the audit regulations. This is a key part of the overall system of audit regulation.
2. Many firms will already be carrying out internal monitoring, quality assurance or practice reviews. The term audit compliance review (ACR) is used in this guidance and also on the annual return.
3. This guidance will help firms, whether sole practitioners or larger firms, to monitor their compliance with the audit regulations cost effectively and efficiently.

Why is an audit compliance review (ACR) required?

4. All kinds of enterprises conduct periodic reviews to assure management that proper safeguards are in place to lessen the likelihood of sub-standard goods and services being produced or supplied. Auditing is a complicated process involving a series of professional judgements culminating in the audit opinion. Whether this is a product or service, testing that it is of a satisfactory standard is just as important for a local auditor as it is for any other organisation. This may be increasingly relevant where there is a public interest in the firm's clients.
5. The firm's principals are effectively collectively responsible for the work of the firm, and they will want to satisfy themselves that the audit work is being done according to the regulations.
6. Many firms, of all sizes, use reviews to assess the effectiveness of the way that they conduct their work – not only audit. A review can be a powerful tool to improve working practices. The questions in this type of review go far beyond testing the firm's compliance with the audit regulations and could include such fundamental questions as:
 - Is the firm providing the service to its clients that they need and want?
 - Is the firm sufficiently paid for those services?
7. The nature of the questions asked depends on the objectives of the review. This guidance is intended to help firms meet the requirements of regulation **3.20**.

What is an ACR?

8. An ACR is to assure the firm it has complied with the audit regulations. The audit regulations require a local auditor to carry out audits according to ethical standards and comply with auditing and quality control standards. These in turn require the firm to have certain procedures and arrangements in place for its audit work.

Appropriate documentation should exist which sets out the monitoring procedures, records the evaluation and identifies the deficiencies and any further action.

What is involved in an ACR?

9. In many ways an ACR is an internal audit of the way a firm conducts its auditing work. Because each firm is unique, through its principals, employees and clients, there is no single approach that will suit all firms.
10. An ACR is usually in two parts. The first part, the whole firm, is about how the audit practice works. The second part is about cold file reviews and asks how a sample of audit assignments has been completed. The expression cold file review, has been used in the profession for many years – the review is cold because it takes place after the whole audit process has been completed and the audit opinion given. It provides assurance to the firm that quality control procedures which are built into the audit process have worked satisfactorily.

11. As part of their quality control procedures some firms also carry out hot reviews (before the audit report is approved). The ACR programme checks that , if necessary, the required hot reviews have taken place
12. There are many commercial ACR programmes and checklists available for firms to use. Compliance principals or sole practitioners should consider their own practices and amend these programmes as necessary so that the ACR is appropriate to their firm.
13. Cold file reviews are an important part of the ACR but how many client files should be cold reviewed? Some firms will select audits for a particular reason (for example because it is a high risk audit or perhaps a new client) and then a sample of other files. However, monitoring experience has shown that there is a law of diminishing returns. If a single file is representative of a principal's work then that can reveal virtually all that is needed and little may be gained from doing more. A representative sample of two or three audits for each principal should be enough.

Who might carry out the ACR?

14. Although the main purpose of an ACR is to assure a firm that it is complying with the audit regulations, there is a further important aim. This is to add value to the audit practice, either by identifying potential areas for improvement or by giving assurance that everything is satisfactory. For both reasons the review must be done effectively. A half-hearted attempt which fails to identify significant risks or inefficiencies is a waste of time and will give a false sense of security.
15. The first step is to identify the person best placed to conduct the review. The monitoring process should be entrusted to a principal, principals or other persons with sufficient and appropriate experience. The choices are someone from:
 - within the firm;
 - another local auditor; or
 - a specialist organisation eg a training consortium which provides a review service.
16. Sole practitioners, firms with only one KAP and other small firms should note that ISQC1 does not permit the KAP or the engagement quality control reviewer for a particular audit to undertake a cold file review of that audit. There may be another individual in the firm who, although not a KAP, is very experienced in current auditing requirements. Assuming this individual did not take part in the audit, the firm may decide this individual would be a suitable person to undertake the review. If this is not possible, the firm should use an external reviewer at least once every three years.
17. The whole firm aspects of the review could be dealt with when completing the annual return. However, an individual practitioner might find it difficult to remain objective in cold reviewing his or her own completed assignments. The tendency will be to fill gaps in the audit process from memory and not to see the audit evidence or process is deficient. Therefore, it is better to use someone independent of the assignment for the cold file review. As mentioned above, this may be necessary for small firms on a periodic basis.
18. Qualified employees within the firm can do the detailed cold file reviews. Some firms feel that, as a principal approved the issue of the audit opinion, only principals should do cold file reviews. There is an obvious anxiety for an employee in criticising the work of the person who decides future salaries. The most common approach is to have a combined team of principals and staff. However, it may be more helpful to the person being reviewed if the feedback is given by someone of equal standing and authority. A person who has had experience of being a KAP can add touches of practicality which come from dealing with clients and add further benefits to the process. Also, the individual should not have had any previous involvement in the particular audit.
19. If an ACR is to add value, those doing the review must be technically up to date and have experience of assignments similar to those being reviewed. It can also save time if the person knows how the firm carries out its audits. For a sole practitioner, a suitable person

may be the alternate or consultant for technical matters, provided they had not been consulted on the particular audit.

20. Any outsider doing the ACR should complete a confidentiality declaration. An outsider who is a chartered accountant would, of course, also be bound by ICAEW's Code of Ethics and would have to seek the consent of the firm before acting for any of its clients.
21. Both the reviewer and the reviewed can learn from the experience. Much benefit can be obtained from two sole practitioners, who have no employees, meeting for an afternoon and reviewing one of the other's completed audit files. That would leave each sole practitioner to complete the whole firm part of the ACR.

When should the ACR be carried out?

22. Audit regulation **3.20** requires a local auditor to monitor compliance with the regulations at least once a year. The following paragraphs explain how this can be done.
23. The ACR is based on verifying that effective action is taken to mitigate the risk to the firm of not complying with the audit regulations and of producing poor audit work. Problems can arise because:
 - the people making decisions are stressed;
 - there are changes in a client's business; or
 - there are changes to the law or to accounting or auditing standards.
24. It may therefore be appropriate for the scope of the ACR to focus on any changes that may have amended the previous risk assessment. So, for example, cold reviews may concentrate on how the firm has adapted its procedures to implement a new auditing standard. The timing and frequency of the ACR should take all these factors into account. This calls for flexibility in the timing and the programme of work.
25. If the ACR identifies matters that have gone wrong, the firm will want to deal with that risk as soon as possible. This suggests that the ACR should be done early enough so that any changes can be made to the firm's procedures before the reviewed audits (and others) are started for the next year.

What should be the scope of the ACR?

26. The ACR would normally be in two parts. The first part would cover a firm's obligations under the audit regulations such as:
 - independence and integrity;
 - fit and proper status;
 - competence;
 - appointment and reappointment;
 - professional indemnity insurance; and
 - continuing eligibility;

and under ISQC1 such as:

- leadership responsibilities;
- human resources; and
- complaints.

It is relatively easy to determine the scope of the work needed each year for this part.

27. The second part would deal with reviews of completed audit work to ensure that the firm's audit process had been followed and the audit reports issued are appropriate. Deciding how much work to do for this is more difficult and involves judgements on the number and frequency of reviews.
28. For many firms the easiest way is simply to decide that the work of each principal and senior employee should be reviewed each year. Completed audit files would be then selected and reviewed to make sure that the work was in accordance with the auditing standards and the firm's procedures.

29. Firms may have well-defined procedures to control the quality of the work produced and to make sure appropriate audit opinions are given. This will be a factor in deciding how frequently each principal's work is reviewed. Other factors might be the rate of employee turnover and the number of clients that the firm has identified as high risk. So while some files will be reviewed every year, the work of each principal and senior employee will not. However, even the most well-organised firm should review the work of each principal at least every three years. In other circumstances the timing may need to be more frequent.
30. For a firm with only one KAP, much of the quality control of the work produced depends on that individual's final review. Additional factors to those above may be relevant in deciding the frequency of cold file reviews. For example, the size of the audit portfolio and factors affecting the audit work such as new auditing standards or new disclosure requirements. In a period of change, it would be sensible if, at least once a year, a sample of audit files were cold reviewed.

What should happen after the ACR?

31. All the ACR work needs to be documented so that the detailed findings can be discussed with the KAP in charge of the audit. This discussion should start with the positive points and then with any points that show change may be needed. If action is needed, the timing should be agreed. The effect of the deficiencies should be evaluated and the firm should determine if the audit reports issued are appropriate or if they require prompt corrective action. Where there are a number of people with whom there are post-ACR discussions, the findings need to be consolidated to give an overall view.
32. The summary must be kept to plan future ACRs and to confirm that follow-up action has been taken as agreed. This summary, without identifying which clients' affairs were reviewed, could be the means of disseminating the results of the ACR within the firm. At least annually, the firm should communicate the result of the ACR within the firm. Information communicated should include a description of the monitoring procedures performed, the conclusions drawn, a description of the deficiencies, and action taken. Once the summary has been prepared and the results communicated, unless a monitoring visit has been arranged, the detailed ACR papers can be shredded.
33. The annual return asks questions about the firm's ACR. The first question asks when the most recent ACR was completed. If a firm uses the annual return for considering the whole firm aspects of ACR, then the time of completion is the date when the annual return was completed.
34. When the ACR is finished there must be feedback to those involved. That feedback should answer two questions:
 - What should we do exactly the same way next time because it was successful?
 - What should we do differently next time in order to be more successful?

Conclusion

35. An ACR takes time and other resources. To justify that expenditure the exercise needs to be planned and carried out effectively. And it is essential that the reporting is honest, otherwise those involved in audit work may be falsely reassured.
36. Being in practice implies learning through experience. The ACR is a powerful way of making sure this happens, regardless of any requirement set out in the audit regulations. It can have real impact on the quality of work, its efficiency, and the motivation of everyone involved. Firms want to do their work properly and gain satisfaction from it, but improvements cannot be made unless the areas needing adjustment are identified. The ACR is not an imposition, but a way to help firms do work they can be justly proud of.

Section 4: Appropriate qualifications and key audit partners (KAPs)

There are two terms that need to be understood as they are important terms in the audit regulations.

The first is appropriate qualification, commonly known as the audit qualification. This is a qualification that must be held if an individual is to undertake audit work under these regulations. In certain circumstances it can also be an overseas qualification, including one from another EEA member state. In these latter cases it is usual that an aptitude test has to be passed.

For a principal in a firm to count towards the control percentage for local auditor registration requirements, the principal has to hold the appropriate qualification (note, there are others who can count towards the control percentage and these are set out in regulation **2.03**).

The second term is key audit partner (KAP). These are the individuals (principals or employees of the firm) who are responsible for carrying out audit work on behalf of a local auditor. They must hold an appropriate qualification, which could be an overseas or EEA qualification together with any necessary aptitude test. They do not need to be principals; they can be employees of a local auditor. In addition to the appropriate qualification they must demonstrate competence in local audit work.

The following sections provide further detail on these matters and guidance in the form of a table is given in Schedule 1 at the end of this section.

Appropriate qualification

The appropriate qualification is commonly known as the audit qualification. However, just because an individual has the appropriate qualification does not mean that they can undertake local audit work. Under these regulations they need to be designated as a KAP. This requires the individual to also have an appropriate level of competence to carry out local audits; possession of the appropriate qualification is not sufficient on its own.

An appropriate qualification can be obtained under the Local Audit and Accountability Act 2014 or the Companies Act 2006.

An appropriate qualification can be gained under the Local Audit and Accountability Act 2014 by:

- holding an appropriate qualification gained under the Companies Act 2006;
- holding a qualification awarded by a recognised qualifying body under section 1219(1)a of the Act;
- being a member of an Institute, ACCA or the Chartered Institute of Public Finance and Accountancy before 1 November 2015 or starting, before 1 November 2015 a course of study leading to a recognised professional qualification in accountancy with one of those bodies and becoming a member before 1 November 2021;

An appropriate qualification can be gained under the Companies Act 2006 by holding:

- a recognised audit qualification awarded by a recognised qualifying body;
- an approved overseas qualification and, where required, successfully completing an aptitude test; or
- an EEA audit qualification and, where required, successfully completing an aptitude test.

Under the Companies Act 2006, the three institutes and the ACCA are recognised qualifying bodies and thus the appropriate qualification they award is recognised under the Act.

While individuals from another EEA member state may hold an equivalent appropriate qualification from that country, this is not a UK qualification and so does not entitle those individuals to undertake audit work. This would only be allowed if the individual has undertaken an aptitude test. The individual will then hold an appropriate qualification for the purposes of these regulations.

People who held an appropriate qualification under previous company law are grandfathered and so hold an appropriate qualification. The main ways that members obtained the appropriate qualification under previous legislation were:

- by membership of a recognised professional body (which includes the institutes) on the following specific dates:
 - for the UK (excluding Northern Ireland), **both** 31 December 1989 **and** 30 September 1991, (under the Companies Act 1989);
 - for Northern Ireland, **both** 1 January 1990 **and** 29 March 1993, (under the Companies (Northern Ireland) Order 1990); and
 - for Ireland, 31 December 1990, (under the Companies Act 1990 of Ireland); or
- by gaining a recognised audit qualification awarded by a recognised qualifying body (eg, from the institutes).

If an individual is not sure about an appropriate qualification, they can obtain advice from ICAEW. Contact details are in the introduction to the Local Audit Regulations.

Key audit partner (KAP)

KAPs are individuals who are responsible for the audit work in a local auditor.

Under the law, KAPs are local auditors in their own right. Local auditors can only accept appointment as auditors in accordance with the rules of a RSB, such as ICAEW. ICAEW, as a supervisory body, has responsibilities to monitor the work of KAPs and auditors registered with it and to ensure auditors are complying with legal requirements and the requirements of these regulations. Thus an individual, even if a KAP in accordance with this section, cannot accept audit appointments unless the firm (which may be a sole practitioner) in which the individual works is also a local auditor in accordance with Section 2.

A sole practitioner must be a KAP. In all firms (including sole practices) the audit compliance principal can designate appropriately qualified principals or employees as KAPs as set out in the regulations. A KAP does not have to be a principal.

Guidance on an appropriate level of competence to carry out local audits

An individual who is to be designated as a KAP must hold the appropriate qualification but that on its own is not sufficient. In addition the individual must demonstrate competency in local audit work. The following guidance set out by the FRC sets out how that competence can be demonstrated.

‘A key audit partner must be able to demonstrate the attainment of at least two years post qualification experience of local audit and/or of similar audit work in a supervisory role which includes responsibility for significant judgments in the audit of the historical financial information of local public bodies. All of that experience must have been obtained within the previous six years; and during the two years preceding the application, the individual must have undertaken adequate continuing professional development appropriate to maintaining and developing competence for someone seeking the role of a key audit partner.’

and for those who have neither completed the necessary period of supervised practical training for the recognised professional qualification either in company audit or local audit work, nor acted as a KAP in respect of local audit under the arrangements prior to the 2014 Act:

‘Must have completed a minimum of three years’ supervised practical training in audit and accountancy, of which at least 6 months must be in local public audit, and at least one year in local audit and similar audit work. The training must have been completed in a training office recognised by an RQB and the training record must be fully documented.’

The following is an extract from ICAEW’s Audit Qualification Regulations which sets out the period and types of work.

In order to obtain the confirmation referred to in regulation **3**, the members concerned must:

- have completed a minimum of 144 weeks of general training and work experience from an environment approved by ICAEW, of which at least 96 weeks shall have been completed with a firm of statutory auditors under the supervision of appropriately qualified individuals; and
- have completed a minimum of 48 weeks of audit work experience from an environment approved by ICAEW, of which at least 24 weeks shall have been in statutory audit work as

defined in the Companies Act 2006, and the rest either in statutory audit work or in other audit work similar to statutory audit work where the nature of such work conforms with the definition agreed by ICAEW and the Professional Oversight Board; and

- have passed the appropriate ACA examinations as defined by the Committee.

For local audit this is as follows:

- have completed a minimum of 144 weeks of general training and work experience from an environment approved by ICAEW, of which at least 96 weeks shall have been completed with a firm of local auditors under the supervision of appropriately qualified individuals; and
- have completed a minimum of 48 weeks of local audit work experience from an environment approved by ICAEW, of which at least 24 weeks shall have been in local audit work as defined in the Local Audit and Accountability Act 2014, and the rest either in local audit work, other public sector audit work, statutory audit work or in other audit work similar to local audit work where the nature of such work conforms with the definition agreed by ICAEW and the FRC; and
- have passed the appropriate ACA examinations as defined by the Committee.

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| 4.04 | Firms which designate employees as KAPs must have procedures on how the employees exercise the firm's authority. If the employee is not an institute member or member of the ACCA, he or she must become a local audit affiliate of ICAEW. |
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| 4.05 | ICAEW has its own application form which firms should request and complete. The ICAEW Registration Committee will need to be satisfied that the individual has had recent and sufficient experience of local audit work before approving the application. |
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Cessation of KAP status

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| 4.08 | <p>The status of KAP is linked to the local auditor and cannot be transferred to another firm. It can cease as regulation 4.08 sets out.</p> <p>Firms are reminded of the requirement to inform ICAEW of any changes to the firm's KAPs.</p> <p>Under the law, KAPs are local auditors in their own right. However, local auditors can only accept an audit appointment in accordance with the rules of a RSB, such as ICAEW. Thus if a KAP leaves a local auditor with the intention of undertaking audit work as a sole practitioner, the individual must apply for registration as set out in Section 2 of the regulations. Until such an application is approved, the individual cannot accept audit appointments as the individual will not be a local auditor under the regulations. If a KAP leaves a local auditor to join another local auditor, then the individual needs to be designated as a KAP in the new firm before being responsible for audit work.</p> |
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Schedule 1

Relationship between appropriate qualification (AQ) and KAP status

| | Aptitude test | Hold AQ? | Principal | Employee | Affiliate status | Counts towards control % of firm? | Designated by firm and approved by ICAEW? | Key audit partner |
|--|---------------------|------------|-----------|----------|---|-----------------------------------|---|-------------------|
| Appropriate qualification granted by ICAEW, ICAS, ICAI or ACCA | Not required | Yes | ✓ | - | Not required | Yes | Yes | ✓ |
| | | | - | ✓ | | No | Yes | ✓ |
| Appropriate qualification granted by other RQB under the Act or the 2006 Act | Not required | Yes | ✓ | - | Yes | Yes | Yes | ✓ |
| | | | - | ✓ | | No | Yes | ✓ |
| Individual is a member of, or started a course of study with a body listed below | Not required | Yes | ✓ | - | CIPFA members must hold affiliate status | Yes | Yes | ✓ |
| | | | - | ✓ | | No | Yes | ✓ |
| EEA audit qualification | Yes | Yes | ✓ | - | Yes | Yes | Yes | ✓ |
| | | | - | ✓ | | No | Yes | ✓ |
| EEA audit qualification | No | No | ✓ | - | Yes | Yes | - | x |
| | | | - | ✓ | No | No | - | x |
| Approved overseas qualification | Yes | Yes | ✓ | - | Yes | Yes | Yes | ✓ |
| | | | - | ✓ | | No | Yes | ✓ |
| Approved overseas qualification | No | No | ✓ | - | Yes | No | - | x |
| | | | - | ✓ | No | No | - | x |

Individual is a member of an institute, ACCA or the Chartered Institute of Public Finance and Accountancy and membership began before 1 November 2015 or had started a course of study (leading to a professional qualification in accountancy) with one of those bodies before 1 November 2015 and became a member before 1 November 2021.

Affiliate status is not required for an employee who is not to be designated as a KAP.

Section 5: Audit affiliates

ICAEW is able to register firms in which one or more principals are not members or affiliates of the institutes, members of the ACCA, or local or statutory auditors if these people or corporate bodies are granted local audit affiliate status by ICAEW. That status does not confer membership of ICAEW or entitle the individual or corporate body to use the title chartered accountant. However, it does mean that a local audit affiliate is bound by the same rules and regulations that govern a full member of ICAEW.

An individual who is to be a KAP must also either be a member of an institute or the ACCA. If this is not the case, then either affiliate or local audit affiliate status is needed under this section.

General

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| 5.01 | An affiliate can only be responsible for audit work if they are also a KAP, which means holding an appropriate qualification. Section 4 gives details. |
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Granting of local audit affiliate status

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| 5.02 – 5.03 | Individuals should ask ICAEW for an application form. |
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| 5.04 | <p>Regulation 5.04 sets out the matters the ICAEW Registration Committee will consider when it receives an application for audit affiliate status.</p> <p>Regulation 5.04d means the ICAEW Registration Committee has the same rights, for example to call for information about a local audit affiliate, as it does over a firm. In turn, a local audit affiliate has the same rights of review and appeal against the decisions of the ICAEW Registration Committee as firms have.</p> |
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| 5.05 | <p>If local audit affiliate status is refused under regulation 5.05 (or granted subject to restrictions or conditions) a person can apply for a review of the decision using the same process as for a firm (see Section 8).</p> <p>Under regulation 5.05d, the ICAEW Registration Committee may decide that it can only properly consider an application after it has more information about the applicant which it may ask the applicant to supply.</p> |
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Withdrawal of local audit affiliate status

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| 5.06 | If local audit affiliate status is withdrawn under regulation 5.06 , a person may apply for a review of the decision using the same process as for a firm (see Section 8). |
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Cessation of local audit affiliate status

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| 5.07 | Regulation 5.07 describes a number of situations where local audit affiliate status is automatically lost. |
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| | If an affiliate enters into a voluntary insolvency arrangement, the affiliate must notify the ICAEW Registration Committee in accordance with regulation 5.09 . |
| 5.08 | <p>If a local audit affiliate is a principal in a local audit firm and if that relationship ceases, so does the local audit affiliate status. In the circumstances given in regulation 5.08, local audit affiliates may keep their affiliate status. However, this is only if the new firm is registered with ICAEW as a local auditor and ICAEW has been notified of the changes. If the local audit affiliate will not be joining the new firm within 10 business days, they need to get advice from ICAEW as soon as, or before, they leave the old firm.</p> <p>Firms must also make sure that the control by individuals who hold an appropriate qualification or as set out in regulation 2.03 is maintained.</p> |

Implementation of decisions

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| 5.11 | If a local audit affiliate applies for a review, then a decision under regulation 5.06 is stayed pending the outcome of the review. A decision under regulation 5.05 is not stayed. |
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Fees

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| 5.13 | If a local audit affiliate's application is unsuccessful, the first annual fee will be refunded. |
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Section 6: The committees

This section describes the various committees involved in the regulatory process and their powers. Some, but not all, of the powers may be delegated by the ICAEW Registration Committee to either sub-committees or the staff. But any decision not to allow registration, or to restrict, suspend or withdraw registration must be made by the committee, as outlined in regulation **6.04**.

A firm generally has the right to seek a review of a decision. Details are in Section 8.

Registration Committee

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| 6.02 | Regulation 6.02 sets out the powers and functions of the ICAEW Registration Committee, which include the powers under regulations 6.02j and 6.02k to make monitoring visits to firms. |
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| 6.03 | The ICAEW Registration Committee may delegate many of its powers except in the situations set out in regulation 6.04 . |
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| 6.04 | <p>Regulation 6.03 allows the ICAEW Registration Committee to delegate some of its duties to ICAEW staff. Duties that may be delegated include withdrawing registration under regulations:</p> <ul style="list-style-type: none">• 7.03b, non-compliance with the PII regulations;• 7.03c, failure to submit an annual return;• 7.03d, failure to pay fees;• 7.03e, failure to pay review costs;• 7.03f, failure to pay disciplinary costs; and• 7.03j, failure to comply with any restriction, condition or obligation imposed under the auditor sanctions procedure. <p>However, regulation 6.04 reserves certain decisions to the ICAEW Registration Committee. These include withdrawing registration for other reasons and placing restrictions on a firm's registration.</p> <p>The power to withdraw local audit affiliate status under regulations 5.06b to 5.06d may also be delegated.</p> |
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| 6.06 | Regulation 6.06 gives the ICAEW Registration Committee (or its delegated agents) power to call for information from a firm to help the committee carry out its functions. Requests may be to all firms on a routine basis through annual returns, or specific to individual firms. |
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| 6.07 | This regulation allows the ICAEW Registration Committee to look at other work where the firm has signed a report as a local auditor. This is particularly so where a firm has little or no regulated audit work but is signing other reports as a local auditor. The ICAEW Registration Committee may wish to review this work to assess the firm's ability to carry out audit work. Also, if a complaint is received about other work signed |
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| | as a local auditor the committee may wish to review this or similar work for the same reason. |
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| 6.08 | All information that ICAEW or a monitoring unit receives will remain confidential except as set out in the regulation. |
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| 6.10 | <p>Regulation 6.10 allows the ICAEW Registration Committee to consider any disciplinary or other matter that affects the fit and proper status of the firm. The scope is very wide and not limited to the principals in the firm.</p> <p>Sub-paragraph (a) of the regulation includes employees and associates of the firm. For partnerships, sub-paragraph (b) includes the partners, any director or controller of a partner that is a company, any other company that is in the same group as that company and any controller of any other group company. Sub-paragraph (c) deals with situations where a principal (ie, a partner, member or director) is a body corporate (ie, a company or a limited liability partnership).</p> <p>So included are any director, member or controller of that body corporate, any other body corporate that is in the same group as that body corporate and any controller of any of those other bodies. Finally, sub-paragraph (d) deals with a firm that is a body corporate (ie, a company or a limited liability partnership). Thus included are directors/members/shareholders of the firm and any other body corporate in the same group as the firm and any controller of any of those other bodies.</p> |
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Notification to committees

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| 6.11 – 6.12 | Under regulations 6.11 and 6.12 , information may be exchanged between ICAEW's departments responsible for regulation and discipline. |
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Review Committee and panel

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| 6.13 | A firm may ask the Review Committee to reconsider a Registration Committee decision. This request must be made within a specified time period. Regulations 8.05 to 8.07 give further details of how the review process works. |
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Appeal Committee

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| 6.14 | <p>If a firm is dissatisfied with a decision of the Review Committee or panel, it may apply for the case to be heard before the Appeal Committee. This request must be made within 10 days of the decision being given to the firm.</p> <p>Unlike applications for a review, the Appeal Committee will only hear an appeal on one of a number of specified grounds. It will not reopen the case from the beginning. The specific grounds are given in Section 8.</p> <p>The detailed procedures are given in regulations 8.08 to 8.10.</p> <p>The Appeal Committee's procedures and powers are given in the Disciplinary Bye-laws.</p> |
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Procedures of the committees

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| 6.16 | <p>This regulation allows the committees to decide on their own internal procedures.</p> <p>ICAEW must arrange for complaints against it in its capacity as a RSB to be investigated and has appointed an independent Reviewer of Complaints.</p> <p>The FRC may attend, as an observer, the committee meetings convened in relation to any regulatory proceedings under these regulations.</p> |
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Section 7: Regulatory action

This section explains how the ICAEW Registration Committee may take regulatory action against a local auditor, including withdrawal of registration if necessary.

Regulatory decisions come into effect as set out in regulations **7.09** to **7.10**.

Where, following monitoring by the FRC of the conduct of a major local audit, a sanction is imposed by the FRC in accordance with the auditor sanctions procedure, the sanction is to be treated as if it were a sanction determined by ICAEW and will be enforceable as such.

The processes to be followed are set out in the FRC's Auditor Regulatory Sanctions Procedure, a copy of which is available on the [FRC website](#).

A firm may ask for a review of a decision made by the ICAEW Registration Committee and this is dealt with in Section 8. A firm must apply for a review within 10 days of the decision being given to the firm.

Restrictions and conditions

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| 7.01 – 7.02 | <p>The ICAEW Registration Committee may place conditions on how a local auditor carries out or manages its audit work. These could be that a firm should undertake specified training, change its procedures or have cold reviews of audit files by another local auditor.</p> <p>The ICAEW Registration Committee may place restrictions on a local auditor such as:</p> <ul style="list-style-type: none">• against the firm, for example that it cannot accept any new audits or particular types of audits;• against a principal, for example that a particular principal may no longer be a key audit partner; or• that an employee may no longer be involved in audit work. <p>Where conditions or restrictions are imposed by the committee, a firm will have to undertake to comply with the terms of the restriction or condition. Any failure to deal with these matters is likely to be viewed extremely seriously by the committee.</p> <p>Where the registering body makes a restriction or a condition, and the firm subsequently falls under the jurisdiction of the FRC as a result of undertaking a significant number of major local audits, the FRC may seek to vary the restrictions in consultation with ICAEW.</p> |
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Withdrawal of registration

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| 7.03 | <p>The ICAEW Registration Committee can, under regulation 6.03, delegate its power to withdraw registration in the cases that come under paragraphs (b) to (f) of regulation 7.03. However, under regulation 6.04, only the committee can withdraw a firm's registration on the grounds of paragraphs (a), (g), (h) and (i) of regulation 7.03.</p> <p>The ICAEW Registration Committee may, as an alternative to regulatory action, accept a written undertaking from a firm that it will undertake a particular course of action.</p> |
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Suspension

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| 7.06 | <p>The ICAEW Registration Committee can order that a firm's registration is suspended rather than withdraw registration. This allows the committee to consider further evidence while protecting the public interest. It also means that a firm cannot accept new audit appointments or sign audit reports without the committee's agreement.</p> |
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| | Where ICAEW makes a suspension order and the firm subsequently falls under the jurisdiction of the FRC as a result of undertaking a significant number of major local audits, the FRC may seek to vary the restrictions in consultation with ICAEW. |
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Urgent orders

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| 7.07 – 7.08 | Regulation 7.07 allows the ICAEW Registration Committee to take immediate regulatory action if the need arises. The committee would probably do this if there were serious allegations of fraud or other criminal activity or if there was a potential or actual loss of client money. As well as making immediate representations on the fact that an urgent order has been made, a firm can ask for a review or hearing of the underlying order under regulation 8.05 or 8.15 . The order comes into force when it is served on the firm (see regulation 7.09) and is not lifted if a review is requested. |
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Implementation of committee decisions and orders .

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| 7.09 | <p>The regulations quoted in regulation 7.09 relate to the following:</p> <ul style="list-style-type: none">• regulation 2.05 deals with the grant or refusal of an application;• dispensations given under regulation 2.18;• regulation 4.05 deals with the grant or refusal of key audit partner status;• regulation 7.04 deals with the suspension of a firm's registration;• regulation 7.07 concerns orders in respect of restrictions, conditions or suspension of registration that are made on a urgent basis; and• regulation 8.09 deals with Appeal Committee decisions. |
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| 7.10 | <p>Except for decisions made under regulation 7.09, decisions come into effect 10 business days after the firm has been given the decision. However, the decisions listed in regulation 7.10 are postponed if an application for review or appeal is made. The decision of the Review or Appeal Committee is the one that will come into effect.</p> <p>The regulations quoted in regulation 7.10 relate to the following:</p> <ul style="list-style-type: none">• withdrawal of KAP status under regulation 4.08e;• conditions or restrictions imposed under regulation 7.01; and• withdrawal of a firm's registration under regulation 7.03. <p>Regulation 1.08 details how decisions and orders are served on firms.</p> |
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Section 8: Representation before committees, review and appeal

This section explains how a firm can apply for a review and appeal against a regulatory decision or proposed order of the ICAEW Registration Committee. It also explains when a firm can be represented before a committee. Where appropriate, these regulations also apply to local audit affiliates.

Review of regulatory decisions

An affected party that is dissatisfied with a decision listed in regulation **8.05** can apply for a review. A decision under regulation **2.18, 5.06, 7.01, 7.03** is postponed until the Review Committee's decision has been put into effect.

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| 8.02 | The FRC may attend, as an observer, the committee meetings convened in relation to any regulatory proceedings under these regulations. |
| 8.05 | Regulations 7.09 to 7.10 explain when orders come into effect. Note that reviews of ICAEW Registration Committee decisions in 7.03 include withdrawals of registration for failing to satisfy penalties levied by the FRC under the auditor sanctions procedure. This is a review of a Registration Committee decision, and not the original decision of the FRC under the auditor sanctions procedure; a separate review and appeal process against the FRC decision is set out in the procedure itself. |
| 8.06 – 8.07 | The Review Committee has the same powers as the ICAEW Registration Committee when making orders against firms, KAPs, applicants for local audit affiliate status or local audit affiliates. It can impose the same, more severe or less severe orders. It can also award costs. Costs are likely to be awarded if, for example, the affected party fails to attend the review when it said it would, does not send in further material it has promised, or the application is frivolous. |

Appeal

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| 8.08 | If an affected party is dissatisfied with the Review Committee's decision it can apply to the Appeal Committee. The Appeal Committee can only consider an appeal on any of the grounds in regulation 8.08 . On appeal, the decision of the Review Committee is postponed until the Appeal Committee confirms or varies the decision (see regulation 7.10). The Appeal Committee has the power to accept or reject the appeal, or reduce the severity of the order. It cannot change the Review Committee's order in any other way, but it can ask the Review Committee to reconsider the order. The Appeal Committee can also award costs against an applicant for an appeal. An appeal cannot be made if this is only against the costs awarded by the Review Committee. Regulations 7.09 and 7.10 explain when orders come into effect. |
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Section 9: Disciplinary arrangements

The purpose of this section is to apply ICAEW's disciplinary arrangements to the firms that it registers.

The ICAEW Registration Committee does not have the power to apply the disciplinary arrangements to the firms that it registers. Only the Disciplinary or Investigation Committees (or the Disciplinary Scheme) can do this. The bye-laws already provide a framework for disciplinary action to be taken against members or firms and the purpose of this section is to apply ICAEW's disciplinary arrangements to local auditors.

This section also contains the regulations relating to regulatory penalties.

Application of disciplinary arrangements

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| 9.01 | The disciplinary arrangements are set out in the disciplinary bye-laws. |
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Regulatory penalties

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| 9.02 – 9.07 | <p>The ICAEW Registration Committee may decide that a referral to the Investigation Committee to investigate an apparent failure to comply with these regulations is not appropriate. Instead, with the agreement of the firm, the ICAEW Registration Committee may propose a regulatory penalty. Regulations 9.02 to 9.07 explain this process.</p> <p>Regulatory penalties are likely to be used, for example, where a firm has consistently been late in replying to letters from the ICAEW Registration Committee or staff, has failed to submit annual returns, given incorrect information on the return and so on, or has not honoured undertakings given to the committee.</p> <p>There is no right of appeal as a regulatory penalty can only be made with the firm's agreement. Once a matter has been settled by a regulatory penalty, there will be no further regulatory or disciplinary action against the firm on the matter. However, the details of the regulatory penalty will be put on the firm's record and may be taken into account in the future.</p> |
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