



**PROFESSIONAL
STANDARDS
DEPARTMENT**



**AUDIT REGULATIONS
CONSULTATION:
NOTIFICATION OF
MOVEMENT OF AUDITS**

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PURPOSE OF THIS CONSULTATION

ICAEW proposes to make changes to the UK Audit Regulations and Guidance to increase the transparency of the movement of certain audits between audit firms. We are seeking feedback from stakeholders on the potential impact of these proposals.

ICAEW is consulting for transparency and to ensure that the proposed changes are consistent with ICAEW's duty to act in the public interest. Consulting also helps protect against any unforeseen or unintended consequences that may be brought about by the changes.

This consultation is likely to be of interest to ICAEW members, ICAEW member and regulated firms, non-members who are registered with ICAEW for statutory audit, consumer groups and other professional services regulators.

The consultation is open from 6 June to 6 September 2024. Following the consultation process, revised regulations are expected to come into effect in early 2025.

Key proposed change

A requirement for audit registered firms to notify ICAEW within 21 business days of being appointed as auditors to certain entities, and to entities where the audit fees are significantly higher than fees in the firm's existing audit portfolio.

BACKGROUND

ICAEW's role as an improvement regulator is to strengthen consumer confidence and trust in those regulated by ICAEW. We do this by enabling, evaluating and enforcing the standards expected of them by the profession, oversight regulators and government to act in the public interest.

The transparency of who audits companies in the UK has been the subject of government attention in recent years. Government had intended to introduce a requirement for a notification to be made to Companies House when an auditor was appointed to a company. However, this provision was omitted from the Economic Crime and Corporate Transparency Act 2023. It is unclear when further progress will be made to introduce up to date auditor data at Companies House.

PROPOSED CHANGES

ICAEW, in its role as a statutory audit regulator, has concluded that greater visibility of the movement of certain audits between audit registered firms would enable more effective regulatory activity to ensure high audit quality. In the absence of the expected Companies House changes, we propose to make some amendments to the UK Audit Regulations.

We propose to introduce a requirement for audit registered firms to notify ICAEW within 21 business days of being appointed as auditors for certain entities (see proposed criteria).

The reporting requirement would also apply where a registered audit firm continued as auditor, but the entity began to meet the criteria where they did not previously.

A waiver mechanism is also being considered to ensure that these new requirements are designed in a proportionate way, without creating an undue reporting burden on audit registered firms.

There is already an obligation for audit registered firms to notify the Financial Reporting Council and the ICAEW Audit Registration Committee within 21 business days when they are appointed as auditor to a retained audit. This obligation remains unchanged.

Criteria for notification to ICAEW

We propose that an audit registered firm should notify ICAEW when a firm is appointed as auditor of an entity that meets one or more of the following criteria:

Criteria a)

A listed non-retained audit*;

Criteria b)**

A non-retained audit* that:

- has turnover greater than £750 million or
- is an Other Entity of Public Interest under the FRC Ethical Standard;

Criteria c)***

Expected first-year audit fee for an entity, group or collection of entities with the same beneficial owner or controlling party that is:

- More than two times the firm's existing highest audit fee as notified on the firm's last annual return for an entity, group or collection of entities with the same beneficial owner or controlling party

Criteria d)****

The registered auditor has three or fewer responsible individuals and the audited entity or group, or a collection of audited entities under common beneficial ownership or controlling party, have combined turnover greater than £750 million.

*A non-retained audit is:

- not a PIE audit
- not one that has otherwise been retained by the FRC (for example a Lloyds Syndicate or certain AIM listed entities).

** The threshold of £750m of turnover aligns with the previously proposed new criteria for a company that would be treated as a PIE under the potential changes to the PIE definition outlined above, although without the additional 750 employee threshold. It may be that the Other Entity of Public Interest (OEPI) category would be removed from the Ethical Standard if a revised PIE definition is introduced. Given the uncertainty of the actions of a future government, it is unknown if and when the FRC would receive notifications of audit appointments to these categories of entity.

*** The rationale for the requirement in (c) applying to an entity, group or collection of entities with the same beneficial owner or controlling party, is to align with recent changes made to the FRC Ethical Standard.

****The rationale for the requirement in (d) applying to an entity, group or collection of entities with the same beneficial owner or controlling party, is to align with recent changes made to the FRC Ethical Standard. The firm threshold in (d) of three or fewer responsible individuals is the level at which a registered auditor is not required to have an ethics partner.

Further guidance relating to all four criteria

The notification would also be required where the auditor remained in post when the audited entity began to meet the criteria in (a) or (b), or the firm and audited entity(ies) began to meet the combined criteria in (d). This is currently the case for the Audit Registration Committee (ARC) reporting requirement under regulation 3.15 of the Audit Regulations. For example, where firms have to notify the ARC if they remain in post when the audited entity becomes a PIE.

Waiver mechanism

ICAEW is keen to ensure that a new requirement to notify ICAEW of certain audit appointments is designed in a proportionate way that provides real-time information without creating an undue reporting burden on audit registered firms.

For this reason, ICAEW is considering whether a waiver mechanism should be available as part of the proposals. The mechanism would make it possible for the ARC to issue a waiver to an audit registered firm if the ARC was satisfied that the firm had substantial experience in performing the types of audits that are notifiable.

The waiver mechanism could consist of a complete waiver from the requirement to notify, or periodic reporting of any appointments meeting the criteria.

CONSULTATION QUESTIONS

Questions: notification of appointment to certain audits

1. Do you agree that notifications should be made for appointments to listed [non-retained audits](#)?
Yes/No
Please explain the reason for your answer.

2. Do you agree that notifications should be made for entities that meet [criteria \(b\)](#)?
Yes/No
Please explain the reason for your answer.
3. Is turnover greater than £750 million or being an Other Entity of Public Interest the right threshold for notification in [criteria \(b\)](#)?
Yes/No
If no, please suggest other thresholds.
4. Do you agree that notifications should be made where [criteria \(c\)](#) are met?
Yes/No
Please explain the reason for your answer, including alternative suggestions if relevant.
5. Do you agree that notifications should be made where [criteria \(d\)](#) is met?
Yes/No
If no, what would be the appropriate thresholds for notification where a small audit firm takes on a relatively large audit engagement?
6. Do you agree that all notification requirements under [criteria \(a\)](#), [\(b\)](#) and [\(d\)](#) should apply where a firm remains as auditor but the audited entity begins to meet the criteria where it did not previously?
Yes/No
7. Do you agree that a 21 business day reporting period is appropriate?
Yes/No
8. Do you foresee any significant challenges with a 21 business day reporting period?
Yes/No
8.a) If yes, please detail what these challenges would be.
9. Do you have any audits currently that would meet any of the criteria for notification?
Yes/No
10. Optional question: If you answered yes to question 9, approximately how many audits?:
 - a. 1-5
 - b. 6-10
 - c. More than 10

Question: use of a proportionate waiver mechanism

11. Do you support the inclusion of a proportionate [waiver mechanism](#) for some firms to either be exempt from the requirement to notify ICAEW, or to be permitted to submit periodic reporting of the appointment of certain audits (as defined in the [draft criteria](#))?
Yes/No

11a. If yes, do you have any views on examples of circumstances that would be appropriate for the ARC to grant such a waiver?

Question: any other feedback

12. Do you have any other feedback or comments on the proposed changes?

THE CHANGES TO THE AUDIT REGULATIONS

The following text details the proposed changes to the Audit Regulations, including a new 3.15A, 3.15B, 3.15C and 3.15D. New text is highlighted in blue:

Audit Regulations (existing / suggested additions)
<p>3.15 If a <i>Registered Auditor</i> is appointed to a <i>retained audit</i> client (or a <i>Registered Auditor</i> becomes aware that an existing <i>audit client</i> is now a <i>retained audit</i> client) it must inform the <i>Registration Committee</i> in writing as soon as practicable, but not later than 21 business days after the event, of the name of the <i>audit client</i>, unless the <i>Registration Committee</i> has given the <i>Registered Auditor</i> a waiver from compliance with this <i>regulation</i>.</p>
<p>3.15A If a <i>Registered Auditor</i> is appointed to a listed non-public interest entity <i>audit client</i> that is also not a <i>retained audit</i> client (or a <i>Registered Auditor</i> becomes aware that an existing <i>audit client</i> is now a listed non-public interest entity <i>audit client</i>) it must inform the <i>Registration Committee</i> in writing as soon as practicable, but not later than 21 business days after the event, of the name of the <i>audit client</i>, unless the <i>Registration Committee</i> has given the <i>Registered Auditor</i> a waiver from compliance with this <i>regulation</i>.</p> <p>General guidance to support Audit regulation 3.15A-3.15D: Where an audit is captured by regulation 3.15 regulations 3.15A-D are not applicable.</p> <p>Guidance to support Audit regulation 3.15A:</p> <p>The reporting requirement under 3.15A is in respect of audits of companies which are;</p> <ul style="list-style-type: none">- quoted on the Alternative Investment Market (AIM) or the Aquis Stock Exchange (AQSE) which have a market capitalisation less than €200m on the basis of end-year quotes for the previous three calendar years- listed on a recognised exchange <p>Further guidance on recognised exchanges is available from the HMRC website Designated recognised stock exchanges – GOV.UK (www.gov.uk)</p>
<p>3.15B If a <i>Registered Auditor</i> is appointed to a non-public interest entity <i>audit client</i> that is also not a <i>retained audit</i> client with turnover of £750 million or more (or currency equivalent), or meets the definition of an ‘Other Entity of Public Interest’ (OEPI) (or a <i>Registered Auditor</i> signs an audit report on an existing non-public interest entity <i>audit client</i> that is also not a <i>retained audit</i> client which has increased turnover to £750 million or more (or currency equivalent), or has now met the definition of an OEPI) it must inform the <i>Registration Committee</i> in writing as soon as practicable, but not later than 21 business days after the event, of the name of the <i>audit client</i>, unless the <i>Registration Committee</i> has given the <i>Registered Auditor</i> a waiver from compliance with this <i>regulation</i>.</p> <p>Guidance to support Audit regulation 3.15B: An Other Entity of Public Interest is as defined by the FRC Glossary of Terms (Auditing and Ethics). Calculation of turnover for the company or group of companies should be in line with the definition as stated in Companies Act 2006, Section 474.</p>
<p>3.15C If a <i>Registered Auditor</i> is appointed to an <i>audit client</i> that is also not a <i>retained audit</i> client where the expected first-year audit fee for the entity, group or collection of entities with the same beneficial owner or controlling party is:</p> <ol style="list-style-type: none">More than two times the firm’s existing highest audit fee as notified on the firm’s last annual return for a single entity, group or collection of entities with the same beneficial owner or controlling party

it must inform the **Registration Committee** in writing as soon as practicable, but not later than 21 business days after the event, of the name of the **audit client**, unless the **Registration Committee** has given the **Registered Auditor** a waiver from compliance with this regulation.

Guidance to support Audit regulation 3.15C:

The definition of “beneficial owner or controlling party” would align to that given in the FRC Glossary of Terms.*

*ICAEW understand that the FRC Glossary of Terms is currently being updated by the FRC to include a definition of “beneficial owner or controlling party”. This is expected to be released prior to any amendments being made to 3.15 of the Audit Regulations.

3.15D If a **Registered Auditor** with three or fewer **responsible Individuals** is appointed to complete the audit of a non-public interest entity and its subsidiaries, or a collection of entities with the same beneficial owner or controlling party (which is not a corporate holding entity), with aggregate gross worldwide turnover greater than £750 million (or currency equivalent) that is also not a **retained audit client** it must inform the **Registration Committee** in writing as soon as practicable, but not later than 21 business days after the event, of the name of the **audit client(s)**, unless the **Registration Committee** has given the **Registered Auditor** a waiver from compliance with this regulation.

Guidance to support Audit regulation 3.15D:

Notification to the Registration Committee would only be required on the first appointment upon which the threshold had been reached.

DIVERSITY, EQUALITY AND INCLUSION

We do not believe the proposed changes will result in a worse outcome or quality of service for anyone due to their background or life circumstances. Please tell us if you think your firm or any of your clients will be adversely impacted by the proposals due to a protected characteristic (such as age, disability or race).

Question - diversity, equality and inclusion

13. Are there any adverse impacts arising from a diversity, equality or inclusion perspective from the changes outlined in this consultation?

ABOUT YOUR ORGANISATION

Please tell us about your organisation.

14. Which category does your organisation fall in to:

- Firm registered for audit with ICAEW
- Firm registered for audit with ICAS
- Firm registered for audit with CAI
- Other, please specify:

14a. How many responsible individuals are there at your firm (if applicable)?

- 1
- 2-5
- 6-49
- 50+

14b. ICAEW firm number (if applicable): C0

HOW TO RESPOND

[Respond to the consultation online](#)

Or

Write to us with your response to:

Sophie Wales, Director, Regulatory Policy, Professional Standards Department
ICAEW, Metropolitan House, Avebury Boulevard, Milton Keynes MK9 3FZ.

Please **contact us** if you need anything further (for example for accessibility reasons) to enable you to submit your response.

TIMELINE

The consultation will close on 6 September 2024.

After the consultation closes, we will consider all the feedback and comments received, discuss the results with the ICAEW Regulatory Board and make any resulting changes as appropriate.

A summary of the results will be published later in 2024.

FURTHER INFORMATION

About the UK Joint Audit Regulations

ICAEW together with the Institute of Chartered Accountants Ireland (CAI) and the Institute of Chartered Accountants Scotland (ICAS) are recognised supervisory bodies for the regulation of audit, and jointly have a set of Audit Regulations which are approved by the Financial Reporting Council.

ICAEW's regulatory and conduct roles

Our role as an improvement regulator is to strengthen confidence and trust in those regulated by ICAEW. We do this by enabling, evaluating and enforcing the standards expected by the profession, oversight regulators and government.

ICAEW's regulation and conduct roles are separated from ICAEW's other activities through internal governance so that we can monitor, support and take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department and overseen by the ICAEW Regulatory Board and oversight regulators including the Financial Reporting Council, Office for Professional Body Anti-Money Laundering Supervision, the Insolvency Service and the Legal Services Board.

We:

- **authorise** firms and individuals to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- **support** professional standards in general accountancy practice through our Practice Assurance scheme;
- **provide** robust anti-money laundering supervision and monitoring;
- **monitor** registered firms and individuals to ensure they operate in accordance with laws, regulations and expected professional standards;
- **investigate** complaints and hold ICAEW Chartered Accountants and students, ICAEW-supervised firms and regulated and affiliated individuals to account where they fall short of the required standards;
- **respond** and comment on proposed changes to the law and regulation; and
- **educate** through guidance and advice to help ICAEW's regulated community comply with laws, regulations and expected professional standards.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 208,000 members and students around the world. 99 of the top 100 global brands employ ICAEW Chartered Accountants.*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor around 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is the first major professional body to be carbon neutral, demonstrating our commitment to tackle climate change and supporting UN Sustainable Development Goal 13.

ICAEW is a founding member of Chartered Accountants Worldwide (CAW), a global family that connects over 1.8m chartered accountants and students in more than 190 countries. Together, we support, develop and promote the role of chartered accountants as trusted business leaders, difference makers and advisers.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

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*includes parent companies. Source: ICAEW member data
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