

# AUDIT MONITORING REPORT 2021/22

# CONTENTS

INTRODUCTION	3
ICAEW AUDIT MONITORING	5
AUDIT MONITORING VISITS IN 2021/22	5
LOOKING AHEAD TO 2022/23	12
HELP AND SUPPORT FOR ICAEW AUDIT REGULATED FIRMS	14
GOVERNANCE AND OVERSIGHT	15
APPENDIX: 2021/22 DATA	16

## INTRODUCTION



**RAMA KRISHNAN**  
**CHAIR, AUDIT REGISTRATION COMMITTEE**

As Chair of the ICAEW Audit Registration Committee (ARC), I am very pleased to introduce the *Audit Monitoring Report 2021/2022*.

I am happy to report that, despite some ongoing disruption from COVID-19 over winter 2021/22, ICAEW's Quality Assurance Department (QAD) audit monitoring visits have substantially returned onsite. This is a key factor in the effectiveness and efficiency of ICAEW's monitoring work, enabling far more meaningful engagement, discussion and support to be given to ICAEW audit registered firms, the great majority of which have three or fewer responsible individuals (RIs).

I recognise that many firms have had a very tough couple of years, with in some instances key individuals suffering from serious health problems and firms experiencing deaths both directly and indirectly due to the pandemic and the ongoing

impact of lockdowns. I am also aware that the Quality Assurance Department (QAD) review team itself experienced the shock and sadness of the sudden death of one of their colleagues in May 2021. My sincere condolences go out to all those who have been affected as a result of the COVID pandemic as well as their families.

Looking now at the *Audit Monitoring Report for 2021/22*, this shows a mixed set of results. The good news is that there has been a sharp drop in the percentage of audits requiring significant improvement to just **4%**, down from **7% in 2020/2021** and **8% in 2019/2020**. If this improvement can be sustained by firms reviewed in 2022/23 and beyond then this is a very positive development. The not so good news is that there has been no change in the percentage of audits found to be good or generally acceptable (**76%**). Of course **24%** of audits requiring improvement or significant

improvement is still too high and the profession must continue to focus on increasing standards.

Underlying weaknesses leading to poor audit quality remain consistent with previous years. Frequently these relate to a lack of scepticism and challenge in key areas of judgement, including asset valuations and going concern. Ethical Standards and independence also feature as a significant issue on some audits, where fundamental threats to auditor independence will inevitably lead to a poor audit quality grading.

Even within common areas of weakness, QAD reports that it also sees good practice. This includes clear documentation that 'tells the story' of an auditor's challenge in key areas of judgement. Auditors work increasingly with technology but QAD reports that members of successful audit teams remain highly skilled in the ability to write clearly and coherently.

The implementation of the International Standard on Quality Management (ISQM1) should provide an opportunity for all firms to update and refresh their audit quality control systems and procedures to ensure these are hopefully fit for purpose in an environment of increasing complexity in business and accounting and ever higher expectations on audit firms from the public. This new system of quality management will be dynamic and should evolve with the firm and its audit client base.

Audit firms' engagement with external training organisations and other audit technical resources, including the ICAEW Technical Advisory Services, is critical to success. The ARC and the Professional Standards Department (PSD), of which QAD is a part, are responsible for monitoring and regulating auditors. ICAEW sees itself as an improvement regulator and as part of its work provides insights and constructive feedback (for example via the QAD monitoring visits) to help firms succeed. That said, firms are responsible for their own audit quality.

As regards the work of the ARC, members serve for a maximum of eight years. 2022 has been a year of considerable change with long-standing members retiring after serving their terms and new members joining and bringing with them fresh eyes and different perspectives on audit quality and monitoring. I would like to thank all members of the ARC and particularly the six committee members who will have retired by the end of 2022 for their dedication, hard work and positive contribution to the committee. I would also like to welcome seven new members who I am looking forward to working with in the years to come.

I would like to express my gratitude to QAD staff and the other PSD managers and advisors, who have worked hard to deliver **555** audit monitoring visits in 2021/22.

I also thank those in the member representation teams of ICAEW, including the Technical Advisory Services team, the Audit and Assurance and Financial Reporting faculties and member volunteers who have produced a wide range of materials, webcasts and training to support auditors in the application of new standards such as ISQM1. These teams provide essential guidance and tools to enable firms to help themselves to improve their audit quality. We hope to see the positive benefits of all these efforts from audit monitoring results in the coming years.





## ICAEW AUDIT MONITORING

ICAEW plays a significant role monitoring the quality of non-PIE auditors and non-PIE audit work in the UK, as the largest UK Recognised Supervisory Body (RSB), with responsibility delegated by the Financial Reporting Council (FRC), the UK Competent Authority.

ICAEW registers about **2,400** firms to conduct audit work. Our philosophy is to be a robust, proportionate and transparent regulator. At the same time, we offer help and support to our firms where appropriate.

[Further information about our audit monitoring visit process is available on our website.](#)



## AUDIT MONITORING VISITS IN 2021/22

In this part of the report, QAD Director Trevor Smith explains the range of audit monitoring activities undertaken by the QAD team in 2021/22. He highlights action taken by the committee following audit visits, examples of good practice and areas where improvement has been identified.

**In the year ended 31 March 2022 we completed 555 audit monitoring review visits incorporating the review of firms' work on 1,056 audits (15 months to 31 March 2021: 538 visits and 1,125 audits).**

During 2021/22 there has been a phased return to onsite audit monitoring following the enforced lockdowns and remote working as a result of COVID-19. Indeed, since September 2021, most of our monitoring visits have been onsite. Some audit file reviews at the largest firms are likely to retain a combination of onsite and remote aspects as we utilise advances in technology and work constructively with firms' audit teams who have adopted hybrid ways of working.

Overwhelming feedback from both firms and our own team is that it is preferable to conduct audit monitoring face-to-face. Onsite audit monitoring visits result in a constructive and time-efficient process for all parties, with high quality engagement and discussion.

## A SNAPSHOT OF AUDIT QUALITY

With **76%** of audits we reviewed being either good or generally acceptable, the overall picture of audit quality shows that the improvement seen in 2020/21 has been maintained. It is also positive to note that audits requiring significant improvement are down to **4%**, compared with **7% in 2020/21** and **8% in 2019**.

However, with a substantially different population of firms visited each year, it is important not to overstate the significance of trends over any 2-3 year period.

Audits involve businesses and people, with real-world risks and inherent uncertainties, complexities and judgements. The pressures of work, physical and mental health, and other human factors mean that some audits conducted by our firms are likely to require improvement or significant improvement. As an improvement regulator, we accept these factors, support firms to do the best work possible and when problems arise we request to see careful root cause analysis and action plans that will safeguard the quality of future audits if the firm wishes to continue as a registered auditor.

Our visit outcomes provide an assessment of the capability of audit firms to address any audit quality issues without further assistance or review.

**80% (2020/21: 76%)** of our visits were closed without follow-up action. For these firms, actions taken or planned should resolve any matters we identified on the visit and enable the firms to succeed.

**14%** of visits (**17% in 2020/21**) required some follow-up action to satisfy us that the necessary improvements would be made and **6% (8% in 2020/21)** were referred to the ARC to consider more significant action.

Follow-up actions taken by the ARC included:



Requirement to submit audit file reviews carried out by specialist third parties of either future audits before they are signed (hot file reviews) or after they are signed (cold file reviews).



Requirement to provide further explanations or documentation demonstrating changes to procedures or planned training to address matters raised during the visit.



Requirement for the firm to be subject to another monitoring visit by QAD to check the firm's progress.



Referral of particularly serious matters for investigation by ICAEW's Professional Conduct Department leading to possible sanctions on the firm or individuals involved.



Regulatory (financial) penalties.

When either QAD or the ARC concludes that they need to take follow-up action in relation to audit quality, we put those firms on an accelerated cycle for their next audit monitoring review, normally within 3-4 years.

## CASE STUDIES

These two case studies illustrate the interaction between concerns identified on audit monitoring visits, actions taken by ARC to safeguard public interest and subsequent QAD monitoring and follow up of firms' progress in improving audit quality.



### CASE STUDY 1 RESTRICTIONS IMPOSED AFTER INTELLIGENCE LED TO A RISK AUDIT MONITORING VISIT

This case concerns a sole responsible individual who had four small audits at the time of our previous audit monitoring visit. At the previous visit, the QAD reviewer highlighted some aspects of audit work that could be improved, such as documentation of the audit evidence for certain related party balances, and the approach to auditing completeness of revenue. The firm provided good responses and, as these matters only amounted to limited concerns about the firm's ability, the visit was closed without further follow up.

In late November 2020, colleagues from the ICAEW Professional Conduct Department (PCD) highlighted two audit-related complaints that had been received about the firm. With only five audit clients, the scale of the firm's audit work had not changed significantly since the last visit but, based on this intelligence, QAD decided to accelerate the next audit monitoring review to assess possible wider risks to audit quality within the firm.

The QAD audit monitoring risk visit started in April 2021. The reviewer concluded that one of two audit files reviewed required significant improvement and the accounts were materially incorrect because they were not group accounts as required due to a material trading subsidiary. Other weaknesses were identified in the audit work and it was clear that the firm had not arranged any cold file reviews of its audit work since our previous visit. The firm's responses were positive, but QAD considered that the firm needed external assistance and close monitoring so referred the firm to the ARC.

The ARC placed conditions and restrictions on the firm's audit registration, including a:

- requirement for external hot file reviews of all audits;
- requirement for the firm to get permission from the ARC before accepting any new audit clients; and
- prohibition on the firm undertaking audit file reviews for other firms.

These measures are ongoing. They serve to protect the public interest with the involvement of an objective external party to review the audit work completed before any audit reports are signed by the firm. This gives the firm the opportunity to bring its audit work up to the required standards and the ARC will consider lifting conditions and restrictions once there is sustained evidence of improvement.

This firm will be subject to a further QAD audit monitoring visit between April 2024 and April 2025, but this will be accelerated if there are further concerns. In this case, the firm will need to pay for the accelerated visit so the additional cost is not borne by other audit firms through their registration fees.

If there is insufficient evidence of improvement over a reasonable timeframe, the ARC will consider other options, including withdrawal of audit registration.



## CASE STUDY 2 GOOD QUALITY AUDIT CONCLUSION AFTER PREVIOUS AUDIT REGISTRATION COMMITTEE CONCERNS

This firm with a sole responsible individual has a reasonably sized audit client portfolio of more than 30 audits. In two previous audit monitoring visits, QAD had some concerns about weaknesses in auditing and the accounting for a group consolidation. The firm offered follow-up actions after the first visit but these were not wholly effective and the firm was referred to the ARC after the second visit, three years after the first. The ARC reviewed QAD's report and the representations made by the firm and decided to place conditions and restrictions on the firm's audit registration.

These included:

- a requirement for external hot file reviews of all group audits;
- a cold file review to be carried out of a group audit completed between the QAD visit and the ARC decision (and so missed the hot file review requirement);

- a requirement for the firm to obtain permission from the ARC before accepting any new group audit clients; and
- a prohibition on the firm undertaking audit file reviews for other firms.

The firm accepted the findings and, as part of its actions following the visit, decided to engage a new external audit file reviewer to assist with remediation of the matters raised.

The cold file review, and two external hot file reviews completed over the following 18 months, indicated sufficient progress for a sub-committee of the ARC to approve lifting the conditions and restrictions with the exception of the prohibition on undertaking audit file reviews for other firms.

15 months later (Autumn 2021), QAD conducted a routine follow up visit to check on the firm's progress. The QAD reviewer concluded that the

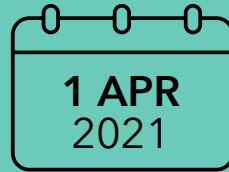
audit files reviewed, including one of a group audit, were of good quality and fully complied with the Audit Regulations. This allowed the reviewer to recommend to the ARC that it should lift the final restriction and the firm is now out of special monitoring.

This firm will receive its next audit monitoring visit in autumn 2027. As with any firm, this may be accelerated if there are significant changes to the firm's structure, its audit client base or if any other intelligence indicates potential risks to audit quality.

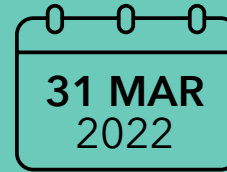


## ICAEW AUDIT MONITORING

Our role as an improvement regulator is to strengthen trust in the work of ICAEW audit registered firms and to protect the public.



TO



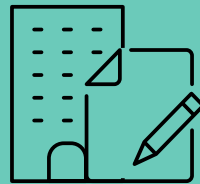
**2,400**

firms are registered with ICAEW to carry out audit work

## MAINTAINING THE HIGHEST PROFESSIONAL STANDARDS

**555**

audit monitoring review visits completed by ICAEW quality assurance reviewers at ICAEW audit registered firms



We reviewed the work on

**1,056**

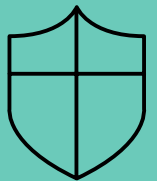
audit engagements



Audit monitoring reviews carried out for three Crown Dependencies (Jersey, Guernsey & Isle of Man).

**100%** judged good or generally acceptable

We also monitor, under contract, for a range of other organisations



**76%**

audits reviewed judged good or generally acceptable - consistent with audit quality in 2020/21



**90%**

audits judged good or generally acceptable at the largest audit firms

**190**

hot and cold file reviews submitted by ICAEW audit firms for assessment of progress



## TAKING ACTION



**£91,800**

aggregate regulatory penalties on **24** firms

**80%**

of firm reviews were closed without need for any follow-up action



**8** audit registrations withdrawn



## HELP AND SUPPORT

**2,222**

audit enquiries were taken by our technical advisory helpline



We published **3** issues of Audit News containing guidance updates and articles.

## AREAS FOR IMPROVEMENT

The most significant issues we raise on audit monitoring visits result in formal reports to the ARC for consideration of conditions, restrictions or other action such as regulatory penalties. These issues fall into a number of categories, all of which contribute to audit quality risks or identified weaknesses in audit quality.

### CONDUCT OF WORK ON INDIVIDUAL AUDITS

Lack of audit planning and risk assessment – limited knowledge about the client and its activities, processes and controls. As a result, firms do not adequately address the risk of fraud arising from management override of controls and audit procedures are poorly designed and sometimes inappropriate given the activities of the audited entity. Even if audit procedures are adequate, sometimes these will lack consideration of risk and may result in over-auditing of some areas.

Audit evidence is at the heart of every audit. Issues include:

- cases where we are presented with an accounts' preparation file with virtually no evidence of audit work;
- lack of consideration of asset valuations and existence;
- insufficient procedures over income and expenditure; and
- lack of consideration of the use of service organisations by the audited entity.

Asset valuation is material in the vast majority of non-PIE audits we review. Whether this is valuation of freehold property or of investments in subsidiary undertakings, it is critical that the auditor does sufficient work to conclude on the evidence supporting the valuation.

Evidence may come from:

- assessment of a third-party valuer and the assumptions applied;
- recent similar transactions or a subsequent sale of the asset in question; or
- the auditor's development of their own estimate of valuation to compare to that of the entity.

Going concern issues have been placed in sharp focus by the pandemic, and recent changes to ISA 570 require a positive statement on the appropriateness of the going concern basis in every audit report. We see firms that have done insufficient work to evaluate and challenge material uncertainties over audited entities' forecasts and assumptions underlying going concern. The judgements and complexity of this aspect of auditing will continue to be challenging for all firms as audited entities are now grappling with difficult economic factors including increasing inflation, interest rates and energy costs.

### FRC ETHICAL STANDARD

Significant ethical issues are rare but, when they occur, they are of critical importance in the assessment of audit quality as they can call into question the fundamental independence of the audit firm and those working on the audit engagement.

During the year, we identified one case where the responsible individual (RI) and two fellow principals in a firm had entered into a business relationship with the director of an audit client, and two cases where the RI or another covered person was trustee of a trust with a material interest in the shares of the audit client.

Firms should be aware that breaches of the FRC Ethical Standard require biannual reporting to ICAEW (or the FRC if a PIE audit firm).

### WHOLE FIRM PROCEDURES

As firms grow, they are increasingly dependent on strong whole-firm procedures to monitor and control the quality of audit work across multiple audit teams and locations. Even the smallest firms will require some key policies and procedures to ensure that their audit practice remains up to date.

Continuing professional development (CPD) is important for all those involved in audit work. We have seen firms where there was little or no CPD undertaken by the RI over a number of years and/or no monitoring of CPD completed by sub-contractors and staff involved in audit. These gaps were evident from poor quality audit work we reviewed.

Cold file reviews are an essential check on audit quality that enable firms to identify and resolve emerging issues long before an audit monitoring visit from QAD. Firms without anyone who can conduct a cold file review independently of the audit engagement team must have an external cold file review at least once every three years. We see some firms that have not arranged cold file reviews (internal or external) for three to four years contributing to poor audit quality.

Many of the most successful smaller audit firms engage regularly with one of the specialist cold file reviewing companies, using the findings from cold file reviews to supplement other CPD activities and illustrate how to achieve high quality audits in practice.

#### ELIGIBILITY AND CONTROL OF AUDIT FIRMS

The management and control of audit firms is important to safeguard the tone and messages from leadership and ensure decisions are made in the public interest with promotion of audit quality above purely commercial considerations. Monitoring visits that lead to a report to the ARC for consideration of further action include those where we have identified eligibility issues, although in some cases there may be little immediate concern about the audit quality on engagements that we have reviewed.

Cases include firm restructuring such that ownership is no longer with audit qualified individuals or other registered auditors, and appointment of directors / principals without notifying us.

### GOOD PRACTICE

We highlight aspects of good practice in audit work where possible to all audit firms. This enables firms to identify the good work that they are doing, to share this with their audit staff and promote a positive culture of high audit quality.

Good practice can be seen in:

- **Audit risk assessment** - depth of understanding of the business, structure and control of an audited entity enabling the firm to clearly identify areas of risk to plan effective audit procedures.
- **Challenge of management** - robust challenge of an audited entity's management to explain and justify key judgements underlying the information in their financial statements, whether this is in assessment of going concern, provisions or valuation of assets.
- **Documentation** - working papers that provide a clear narrative of the audit work completed and conclusions drawn, often with comprehensive cross-referencing across the audit file.
- **High quality reporting** - management of the audited entity and those charged with governance, explaining the work done and conclusions on the audit, and highlighting the principal risks and uncertainties with judgements made by management and the auditor's conclusions.

### OTHER AUDIT MONITORING WORK

#### LOCAL PUBLIC AUDIT

We continue to review local public audit engagements at firms registered with ICAEW to carry out local public audit work. As explained in our *Audit Monitoring Report 2020/21*, we concluded that **88%** of the local public audit files reviewed in that period were either good or generally acceptable.

The well-publicised delays in completion of local public audits in recent years, and the timing of our monitoring work, mean that there are no further completed reviews to include in this report. The results of our latest monitoring, reported to the ARC in October 2022 will be included in our *Audit Monitoring Report 2022/23*.

#### CROWN DEPENDENCY VISITS

We completed five visits in 2021/22 (four visits in 2020/21). Three firms had no audits (two firms in 2020/21) and all files reviewed were either good or generally acceptable in 2021/22, as they were in 2020/21.

#### MONITORING FOR OTHER REGULATORS

We also continue to undertake audit monitoring under contract for a range of organisations, including Monitor on NHS Foundation Trusts, Audit Wales, Northern Ireland Audit Office and a number of overseas bodies. This work helps to further support overall trust in the profession, both in the UK and overseas. It also provides our QAD reviewers with broader experience. This variety of work helps ensure we continue to attract high quality candidates for positions available within the QAD review team.



## LOOKING AHEAD TO 2022/23

### INTERNATIONAL STANDARD ON QUALITY MANAGEMENT 1 (ISQM1)

ISQM1 and the system of quality management (SoQM) represent a significant change from the current ISQC1 requirements. A firm's SoQM will ensure that its audit procedures evolve with changes in the firm and its clients, with key components of risk assessment, monitoring and evaluation.

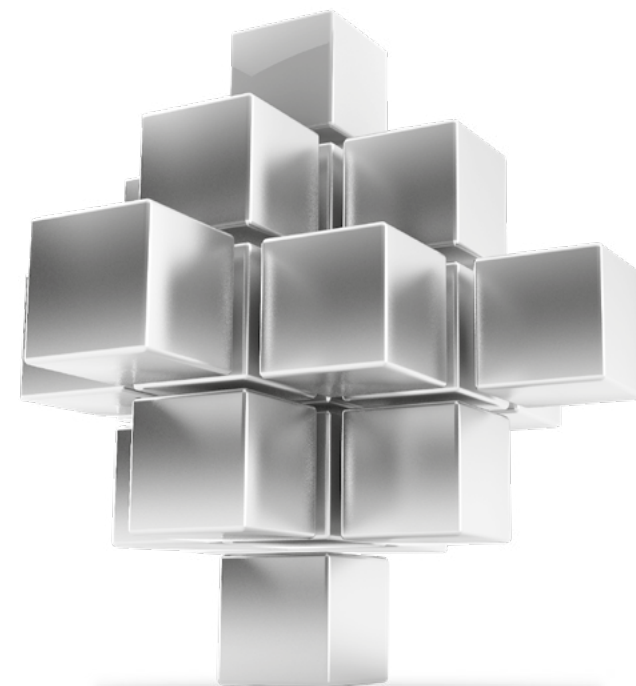
Many existing quality control policies and procedures will remain relevant within the new framework and originate in UK Audit Regulations that pre-date the original International Standards on Quality Control issued in 2005. However, we expect firms to take this opportunity to reassess, refresh and update their existing procedures.

Firms need to have designed and implemented their SoQM by 15 December 2022 and must perform an evaluation of the SoQM by 15 December 2023. Quality management is an iterative process. All firms will need a good starting point on 15 December 2022 and the SoQM will develop and improve over time. The ICAEW Audit and Assurance Faculty has produced comprehensive implementation guidance

for ISQM1. We are aware of considerable interest from firms to understand our planned approach to monitoring compliance with the new requirements.

In early 2023 we will contact a sample of audit firms to ask for further information about their implementation of ISQM1, including details of their risk assessment and background supporting information about their audit clients and staff. We will share insights and good practice from this survey for the benefit of all ICAEW audit firms. Depending on the results, we may decide to conduct similar surveys in 2024 and 2025 expanding into evaluation and monitoring requirements.

Audit monitoring visits from January 2023 will include a review of the implementation of ISQM1 and provide an opportunity for those firms to discuss their revised procedures with a reviewer. Firms can draw on their reviewer's experience to assist them in identifying potential areas where further development and improvements to the procedures are needed.



**REVISED UK AUDITING STANDARDS**

UK auditors should already be aware of the revisions to ISA 240 *The Auditors Responsibilities in Relation to Fraud in an Audit of Financial Statements* and ISA 315 *Identifying and Assessing the Risks of Material Misstatement*, that are applicable to audits of accounting periods commencing on or after 15 December 2021.

ISA 240 provides additional emphasis on the auditor's audit team discussions, decisions on how to use forensic expertise, dealing with whistle-blowers and generally the enhancement of professional scepticism in audit teams.

ISA 315 introduces five new inherent risk factors to aid in risk assessment: subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud. There is enhanced consideration of IT and IT general controls, and a new 'stand-back' requiring reconsideration when material classes of transactions, account balances and disclosure are not assessed as significant.

Firms must check that their audit procedures have been updated for the ISA revisions and ensure that training undertaken will give all members of their audit teams the necessary knowledge to deal with these changes.

**AUDIT AND CORPORATE GOVERNANCE REFORMS**

The UK Government has announced its audit and corporate reporting plans following its consultation process in 2021. These include the formation of the Auditing, Reporting and Governance Authority (ARGA) to replace the FRC, a redefinition of PIEs and the need for 'challenger firms' to open up the audit market for PIEs and other large entities.

We expect these reforms will have little impact on the vast majority of our 2,400 registered audit firms, but there will be some changes for the larger firms.

Firms are reminded that the audit of a single PIE means they will fall within the scope of monitoring by the FRC/ARGA, and from 5 December 2022 all firms that wish to audit PIEs need to be formally registered with the FRC as well as with ICAEW.

**CHANGES TO ICAEW'S CPD POLICY**

Increased regulatory expectations underscore the need for ICAEW to act to maintain and enhance public trust in the profession. ICAEW is therefore making changes to its CPD policy with the aim of improving and maintaining the professional, technical, and business excellence of ICAEW Chartered Accountants.

From 1 November 2023 we plan to introduce an annual mandatory ethics CPD requirement for all ICAEW members and the requirement for a minimum number of verifiable CPD hours for different categories of members/practitioners (including all responsible individuals and staff working in audit in ICAEW audit firms).



## HELP AND SUPPORT FOR ICAEW AUDIT REGULATED FIRMS



WEBCASTS



AUDIT NEWS



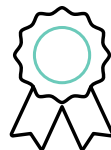
ICAEW FILMS



TECHNICAL AND ETHICS  
ADVISORY SERVICES



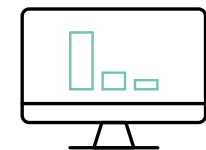
HELPSHEETS



WHAT GOOD LOOKS LIKE  
- GOING CONCERN, ESTIMATES  
AND JUDGEMENTS



AUDIT AND ASSURANCE FACULTY



FINANCIAL REPORTING FACULTY



## GOVERNANCE AND OVERSIGHT

### OVERSIGHT BY THE ICAEW REGULATORY BOARD (IRB)

The IRB has overall responsibility for overseeing the regulatory and disciplinary work carried out by PSD staff including Regulatory Practice & Policy (RPP), QAD, and the effectiveness of the regulatory and disciplinary committees. Its members (and chairs/vice chairs) are appointed by the Regulatory and Conduct Appointments Committee (RACAC).

The IRB holds five or six meetings per year and reviews updates from the PSD Chief Officer on PSD's progress on current initiatives and the impact of proposed regulatory changes.

The IRB's quality assurance programme consists of IRB members observing meetings of the regulatory and disciplinary committees and meeting with committee chairs to discuss feedback on committee performance and ideas as to how to make the committees more efficient and effective.

The IRB receives and reviews all the 'delegated powers review' reports prepared by the regulatory committees and the Investigation Committee. It also reviews the final inspection reports prepared by each of ICAEW's external oversight regulators.

### EXTERNAL OVERSIGHT BY THE FINANCIAL REPORTING COUNCIL (FRC)

The FRC is the UK Competent Authority for audit, and delegates responsibility for licensing, monitoring and enforcement work relating to non-Public Interest audits and auditors to Recognised Supervisory Bodies, including ICAEW. It carries out an annual inspection of ICAEW's audit licensing, monitoring and enforcement work and publishes the results of its inspections. The FRC also undertakes reviews of complaints about ICAEW's handling of audit and accountancy complaints.

### THE AUDIT REGISTRATION COMMITTEE (ARC)

All significant decisions on audit regulatory matters are made by the ARC. This committee is independent from staff and comprises of a parity of lay and chartered accountants with a lay chair who has a casting vote. This maintains an important balance of technical insight from the chartered accountant members and public interest insight from the lay members.

Members of the committee are appointed by RACAC which has a majority of lay members and a lay chair who reports to the IRB. The RACAC chair is not a member of any of the regulatory committees or the IRB.

Where regulatory action may be appropriate following an audit monitoring visit, the committees will consider whether such action is appropriate, which could include one or more of the following outcomes:

- audit registration withdrawal
- imposing conditions/restrictions
- proposing a regulatory penalty.

Every year a lay parity or lay majority subcommittee of the ARC carries out a 'delegated powers review'. Sub-committee members review RPP files to check that licensing decisions taken by staff on new audit applications are within the criteria set by the committee and to check whether RPP staff follow up on remedial action recommended by QAD or required by the committee following a visit. They also review the grading of a sample of QAD audit monitoring visits to gain assurance that remedial action is taken against all firms whose audit work has fallen below standard. Each 'delegated powers review' report is considered by the committee and then submitted to the IRB.



## APPENDIX: 2021/22 DATA

### AUDIT QUALITY - ALL FIRMS

This chart shows the results of all audit file reviews carried out for the year ended 31 March 2022 compared to the 15 months ended 31 March 2021 and year ended 31 December 2019.

Results in 2021/22 show that...

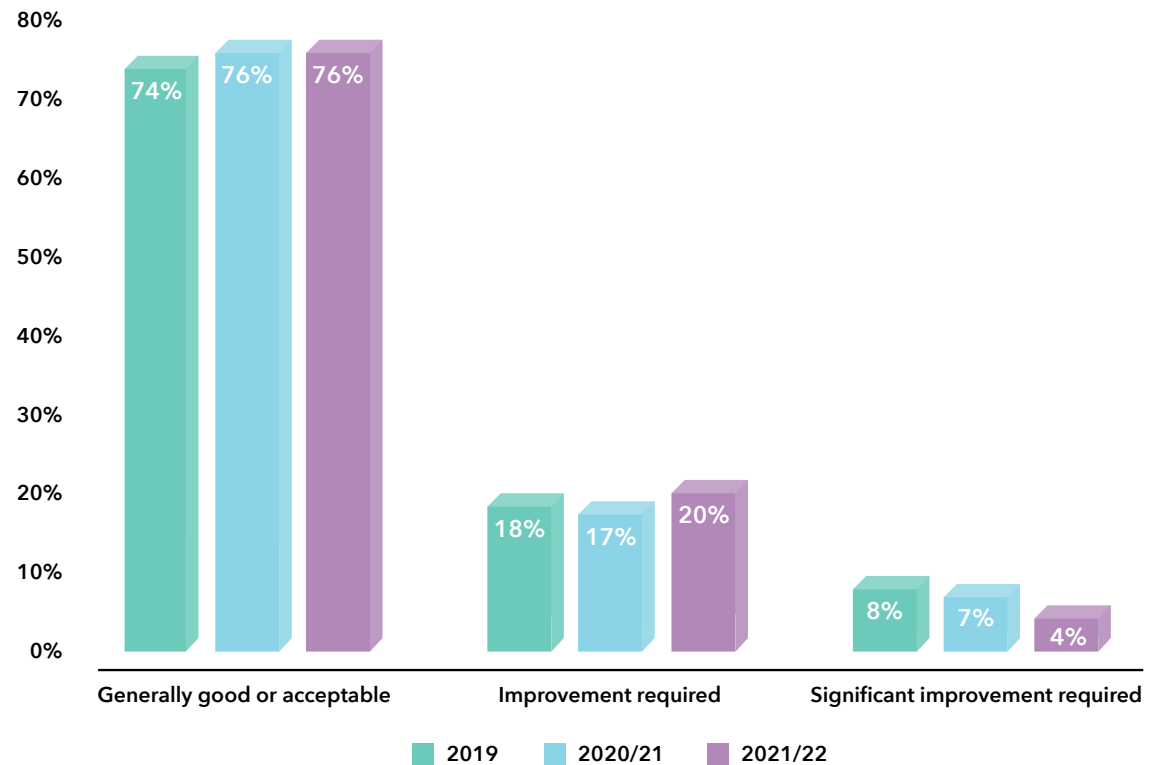
76%

of the audits were either good or generally acceptable, and

24%

required improvement or significant improvement.

This is broadly consistent with audit quality in 2020/21, although fewer audits in 2021/22 attracted the lowest quality grading.

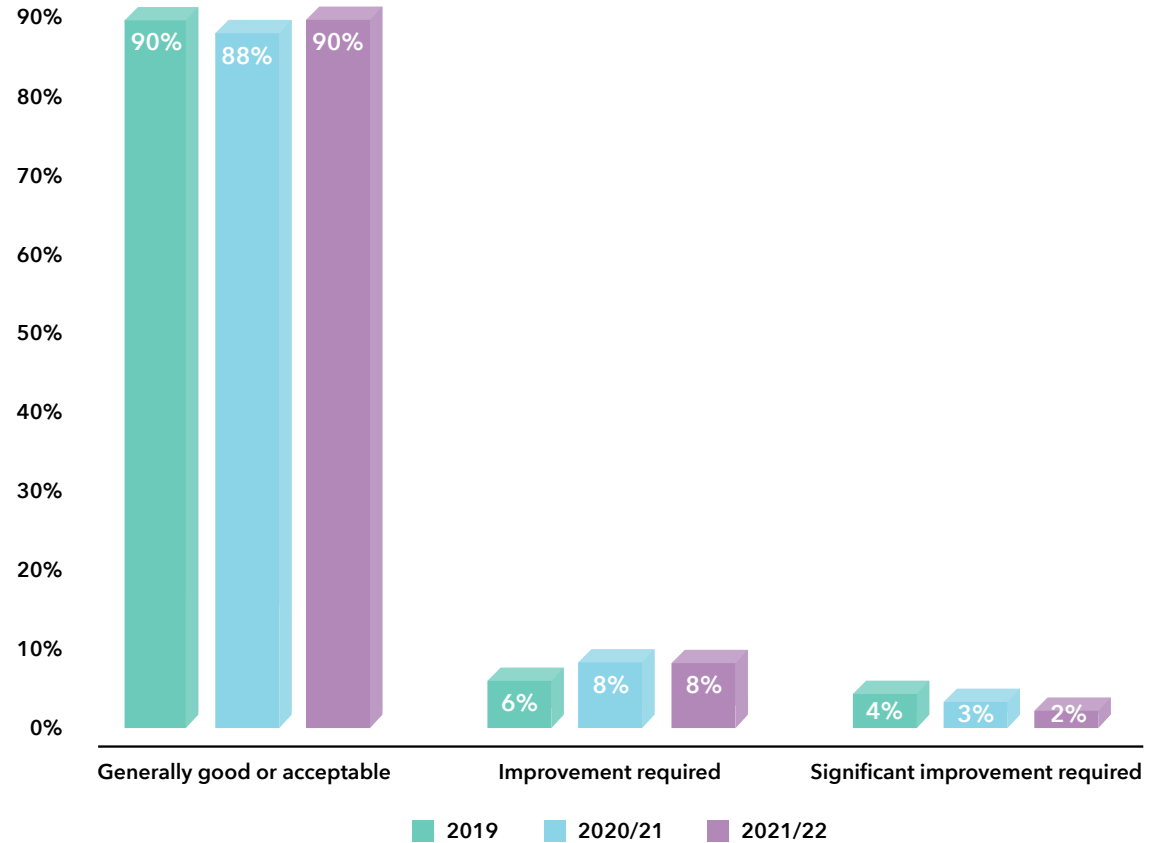




AUDIT QUALITY - LARGEST AUDIT FIRMS

90%

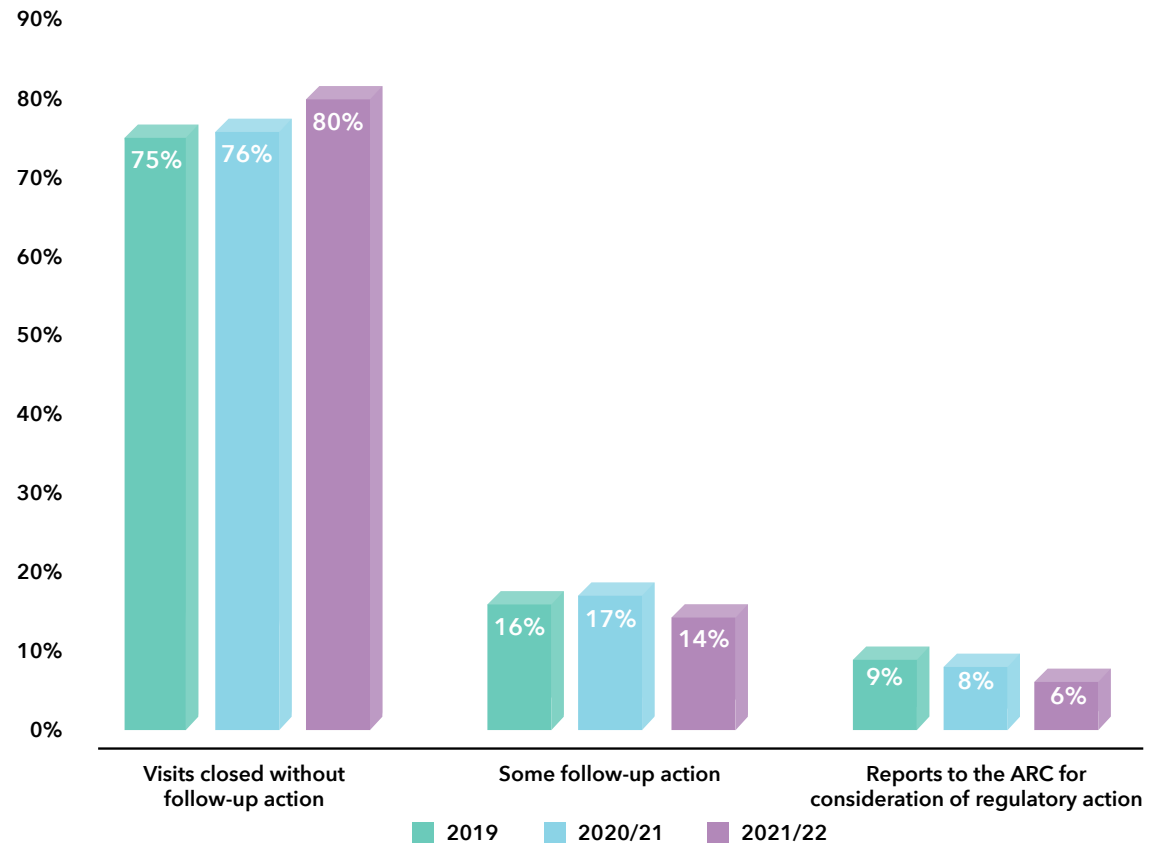
The seven largest audit firms are subject to an annual review of their PIE audit work by the FRC and to non-PIE audit file reviews by ICAEW every one or two years. This chart shows the aggregate results of our reviews of non-PIE statutory audits at these largest firms over the past three years showing that **90%** of audits were judged to be either good or generally acceptable in 2021/22. The results of our reviews of non-PIE audits at individual large firms can be seen in the FRC's *July 2022 Audit Quality Inspection Reports*.



AUDIT MONITORING VISIT OUTCOMES - ALL FIRMS



Overall conclusions are drawn at a firm-wide level for each monitoring visit. Conclusions on each firm incorporate not only our assessment of overall audit quality (taking into account all file reviews carried out at the firm) but also an assessment of the adequacy of the firm's policies and procedures, its evaluation of the firm's root cause analysis for more significant findings and its commitment and ability to address the findings. These assessments can result in very different visit outcomes.



### VISITS CLOSED WITHOUT FOLLOW UP ACTION



As part of the visit process, firms must provide a written response to the matters raised, including details of actions planned and taken. If we are satisfied with the firm's response and consider the firm has both the commitment and ability to make any improvements needed, the visit will close without any further action. The final assessment takes into account a range of factors, including the scale of improvement required and previous visit history.

### SOME FOLLOW UP ACTION NEEDED



Where some follow-up action is needed, firms are asked to provide further information. This ranges from providing further details of planned actions, to submitting the results of external cold file reviews, details of training courses or improved audit programmes. Submission of this information usually gives us the reassurance required that the firm is addressing the matters raised. If not, additional evidence of improvement may be required, or we may decide to bring forward its next review visit.

### WHERE AUDITS REQUIRE IMPROVEMENT



This will attract follow-up action unless firms can demonstrate that these are isolated examples and that they have taken appropriate steps to understand root causes and prevent recurrence. If, for example, four audits are found to be 'generally acceptable' with only one needing improvement, we may conclude that the firm is able to address any issues. However, we still need to be satisfied that the firm has explored the root causes of the audit needing improvement and that it has developed an appropriate action plan. If we are not convinced about the firm's response, we will put in place some follow-up actions to enable the firm's progress to be monitored.

## WHERE AUDITS REQUIRE SIGNIFICANT IMPROVEMENT



If the quality assurance reviewer considers that the quality issues are more widespread, or serious in nature, the firm will be reported to the ARC and some form of regulatory or disciplinary action is likely to follow. The ARC has a range of options at its disposal. It can:

- impose conditions; typically these would include external hot or cold file reviews with submission of the results in order to monitor firms' progress;
- impose restrictions, for example restricting a firm from taking on any new audits without approval from the ARC;
- offer a regulatory penalty or refer a firm to the ICAEW Professional Conduct team for further investigation; or
- withdraw the firm's audit registration (in the most serious cases).

The ARC will usually seek to provide an opportunity to a failing firm to show it can improve by imposing conditions, requiring checks to be made on future audits, while protecting its clients and the wider public. If sufficient improvements are not seen, the ARC may move to withdraw a firm's registration. The majority of our 2021/22 visits concluded without any further regulatory action.

There continues to be a reduction in the most serious visit outcomes which ties in with a similar reduction in the number of audits that require significant improvement.

## ICAEW'S REGULATORY AND CONDUCT ROLES

Our role as an improvement regulator is to strengthen trust in ICAEW Chartered Accountants and firms. We do this by enabling, evaluating and enforcing the highest standards in the profession.

ICAEW's regulatory and conduct roles are separated from ICAEW's other activities through internal governance so that we can monitor, support or take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department (PSD) and overseen by the ICAEW Regulatory Board (IRB).

We:

- **authorise** ICAEW firms, members and affiliates to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- **support** the highest professional standards in general accountancy practice through our Practice Assurance scheme;
- **provide** robust anti-money laundering supervision and monitoring;
- **monitor** ICAEW firms and insolvency practitioners to ensure they operate correctly and to the highest standards;
- **investigate** complaints and hold ICAEW firms and members to account where they fall short of standards;
- **respond** and comment on proposed changes to the law and regulation; and
- **educate** through guidance and advice to help stakeholders comply with laws, regulations and professional standards.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 198,500 members and students around the world. 99 of the top 100 global brand employ our 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.

[www.charteredaccountantsworldwide.com](http://www.charteredaccountantsworldwide.com)  
[www.globalaccountingalliance.com](http://www.globalaccountingalliance.com)

\* includes parent companies. Source: ICAEW member data at 27 July 2022, Interbrand, Best Global Brands 2021

## ICAEW

Metropolitan House  
321 Avebury Boulevard  
Milton Keynes  
MK9 2FZ  
UK

T +44 (0)1908 248 250  
E [generalenquiries@icaew.com](mailto:generalenquiries@icaew.com)  
[icaew.com/regulation](http://icaew.com/regulation)



ICAEW is  
carbon neutral