

## **Audit Regulations and Guidance**

**Institute of Chartered Accountants in England and Wales  
Institute of Chartered Accountants of Scotland  
Institute of Chartered Accountants in Ireland**

**Draft document setting out changes necessary to effect the  
terms of the UK's exit from the European Union applicable only  
to the regulation of UK Auditors**

2021

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Institute of Chartered Accountants in England and Wales  
Institute of Chartered Accountants of Scotland  
Institute of Chartered Accountants in Ireland

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## **Abbreviations**

The following abbreviations are used in this booklet:

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
ACCA	Association of Chartered Certified Accountants
CPD	Continuing professional development
FRC	Financial Reporting Council
ISAs	International Standards on Auditing (UK)
ISQC1	International Standard on Quality Control (UK) 1
PII	Professional indemnity insurance
RSB	RSB

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## Introduction

1. The Institutes are all Recognised Supervisory Bodies in the UK for the purposes of regulating auditors. The Institutes must have rules setting out how auditors are regulated, which this booklet contains, with guidance on how they should be followed.
2. The Institutes are also Recognised Qualifying Bodies in the UK. This means that membership of an Institute, provided it is accompanied by practical audit experience, would qualify a member as the holder of an 'appropriate qualification' (see chapter 4). This in turn allows a member to apply to become a registered auditor. There are other routes to obtaining the appropriate qualification and these are set out in chapter 4.
3. On 31 January 2020 the UK ceased to be a member of the European Union (EU) and the European Economic Area (EEA). As a consequence EU Audit Regulation 537/2014 no longer directly applied in the UK, but most of the content of that Regulation has been transposed into UK law through The Statutory Auditors and Third Country Auditors (amendment) (EU Exit) Regulations 2019 taking effect upon conclusion of the transition period at 31 December 2020. These Regulations include the provisions relating to the transitional period recognising EEA and EU qualifications up until 31 December 2020.
4. Also as a result of the UK's exit, the differences between the regulation of audit in the UK and Ireland have become so significant that it is no longer possible to clearly set these out in a single set of audit regulations. Accordingly these Audit Regulations apply for statutory audits undertaken under UK law only from 1 January 2021. Separate audit regulations will apply for audits undertaken in Ireland after that date.
5. Under the Companies Act 2006 and the Statutory Audit and Third Country Regulations 2016 the responsibility for all matters relating to audit regulation is reserved to a 'Competent Authority' which is the Financial Reporting Council (FRC).

The legislation allows the Competent Authority to delegate audit regulation functions to other bodies recognised in law. These bodies include the Recognised Supervisory Bodies ('RSBs')

The Competent Authority has overall responsibility for performing and overseeing all audit regulation tasks and has been conferred the power to delegate certain of those tasks to the RSBs. As well as responsibility for oversight, the Competent Authorities are responsible for the monitoring, investigation or sanctioning of audit work where this relates to the audits of public interest entities. Such functions are the direct responsibility of the Competent Authority and are dealt with under its procedures. Firms registered by the Institute not only agree to be bound by these regulations but the rules and procedures of the Competent Authority and place themselves within the jurisdiction of its enforcement procedure.

6. Public interest entities are defined in the legislation and include:
  - entities whose transferable securities are admitted to trading on a UK regulated market;

- credit institutions (a bank or building society but not a credit union); and
- insurance undertakings.

The FRC retains the audits of companies quoted on the Alternative Investment Market (AIM) or the ICAP Securities & Derivatives Exchange (ISDX) which have a market capitalisation greater than €200m on the basis of end-year quotes for the previous three calendar years and Lloyds Syndicates. The FRC can amend the class of retained audits.

7. The audit regulation functions that have been delegated to the RSBs include:

- the approval of firms as registered auditors;
- the approval of individuals as responsible individuals;
- setting procedures for maintaining the competence of responsible individuals;
- in relation to audit work other than that of public interest entities or as retained by the Competent Authority:
  - monitoring the conduct of audit work;
  - investigating possible breaches of these regulations; and
  - disciplining and sanctioning breaches of these regulations.
- The application, monitoring and enforcement of appropriate standards

8. Any delegated matter, on a case by case basis or in respect of categories of registered auditors or audits may also, in certain circumstances, revert to the Competent Authority.

If this occurs in the UK, the Competent Authority may elect to conduct the matter under its own procedures, or it can exercise any of the powers in these regulations as if it were the RSB and may vary the regulations that it applies. Alternatively, the Competent Authority may delegate those functions to another RSB who can also apply these regulations as if it were the Registration Committee and may vary the regulations that it applies.

9. The objectives of the Institutes in issuing these audit regulations are to make sure that:

- registered auditors maintain high standards of audit work;
- the reputation of registered 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.

10. Registered 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;
- make sure that all principals and employees are competent and continue to be competent to carry out audit work; and
- comply with the regulatory procedures and processes of the Competent Authority.

11. Guidance is given to help firms apply the regulations. This is printed in light type and the regulations are in **bold** type. Where the guidance is too long to be included with the regulations, it has been put into part 2 of this booklet in separate guidance chapters.
12. 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.
13. The regulations incorporate and should be read in conjunction with all applicable laws, regulations rules and requirements in relation to Statutory Audit in the UK which include:
- The Institutes' Code of Ethics (including the fundamental principles);
  - Applicable Standards on Auditing;
  - Applicable Standards on Quality Control;
  - Ethical Standards;
  - Relevant financial reporting standards: issued by the FRC: IFRS as endorsed/adopted by the FRC
  - Procedures and publications issued by the Competent Authority;
  - Applicable parts of company legislation in the United Kingdom; and
  - The Professional Indemnity Insurance Regulations.
14. Each institute often publishes new material on audit related matters in member newsletters and magazines, such as ICAEW Quarterly, ICAS The CA magazine and ICAI Accountancy Ireland. Auditors should read one of these titles and subscribe to relevant email news alerts via the institutes website. They may also wish to consider following the institute on social media. ICAS and ICAEW members should read the Audit News. ICAI members should read the Regulatory Bulletin.
15. Schedule 1 to chapter 1 contains definitions and interpretation of these regulations which apply both 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 Registered 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 in this booklet. Firms should also refer to material listed in paragraphs 7 and 8 above.

### Becoming a Registered Auditor

Obtain an application form from one of the registering Institutes.

See the list of telephone numbers and/or email addresses at the end of this introduction.

Make sure that the firm meets the eligibility criteria.

See regulations 2.02 and 2.03.

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

See the guidance on fit and proper status (part 2, guidance chapter 1).

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

See regulation 2.02(b) and the separate PII regulations of your registering Institute.

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 the ACCA or a registered auditor?

If they are not, non-members need to become audit affiliates of the registering Institute (chapter 5).

Fill in and return the application form with a cheque for the registration fees and an application form for each Responsible Individual

See regulation 4.05

### Remaining a Registered Auditor

At least once a year check that:

- principals and employees are fit and proper persons;
- principals and employees who carry out audit work are competent and complying with CPD guidelines;
- the firm is competent in the conduct of audits;
- principals and employees are independent;
- PII is in place and adequate;
- the firm's quality control procedures are being complied with;
- each audit reappointment has been properly considered;

See regulation 3.06 and the guidance on fit and proper status (part 2, guidance chapter 1).

See regulation 3.17 and the requirements from your registering Institute on continuing professional development.

See regulation 3.18.

See regulation 3.02 and 3.03.

See regulation 2.02 (b).

See regulation 3.20 and the guidance on monitoring compliance with the audit regulations (part 2, guidance chapter 2).

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 that:
- all changes are notified within ten 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.
  - if you cease to hold an audit appointment, then the notifications to the Competent Authority or the Institute (UK only) may be needed; See guidance under regulation 3.08.
  - changes in 'retained audit' appointments are notified within 21 business days. See regulation 3.15.
  - 
  - all responsible individuals are properly designated. See regulations 4.01, 4.02 and 4.05.
  - When a new responsible individual is designated, application is made to the registration committee See regulation 4.05

## Help and advice

While registered auditors must comply with the regulations help and advice is available. The Institutes and other organisations (such as training consortia) can offer advice and give practical help.

## Telephone numbers

### Institute of Chartered Accountants in England and Wales:

- Professional Conduct Department (Audit Regulation) :
    - 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 +44 (0)800 917 3526
- Calls made in the UK are free. If you are calling from outside the UK you will be charged for the call.
- Audit and Assurance Faculty +44 (0)20 7920 8493
  - Audit related courses [icaew.com/events](http://icaew.com/events)
- 
- questions on appropriate qualifications +44 (0)1908 248 250

Application forms and other information, including the audit regulations can be found at [www.icaew.com/auditnews](http://www.icaew.com/auditnews). Information about PII is at [www.icaew.com/pii](http://www.icaew.com/pii).

### Institute of Chartered Accountants of Scotland:

- Professional Services Department: +44 (0) 131 347 0282
  - application forms [regulatoryauthorisations@icas.com](mailto:regulatoryauthorisations@icas.com)
  - queries on audit regulations [regulatoryauthorisations@icas.com](mailto:regulatoryauthorisations@icas.com)
  - professional indemnity insurance [regulatoryauthorisations@icas.com](mailto:regulatoryauthorisations@icas.com)
  - queries on appropriate qualifications [educationsupport@icas.com](mailto:educationsupport@icas.com)
- Technical enquiries [accountingandauditing@icas.com](mailto:accountingandauditing@icas.com)
- Ethical enquiries [accountingandauditing@icas.com](mailto:accountingandauditing@icas.com)
- Audit related courses [businesscourses@icas.com](mailto:businesscourses@icas.com)
- Audit related books and manuals [infoservice@icas.com](mailto:infoservice@icas.com)
- Audit monitoring [auditandpracticemonitoring@icas.com](mailto:auditandpracticemonitoring@icas.com)

Application forms and other information, including the audit regulations can be found at [www.icas.com](http://www.icas.com). Information about PII is at [www.icas.com](http://www.icas.com).

### Institute of Chartered Accountants in Ireland:

If you are telephoning within Ireland, telephone 01 6377336 for all enquiries. From the United Kingdom, use the following numbers:

- Institute of Chartered Accountants in Ireland +44 (0)28 9043 5858
  - application forms +44 (0)28 9043 5858
  - queries on audit regulations +44 (0)28 9043 5858
  - professional indemnity insurance +44 (0)28 9043 5858
- Technical enquiries 00 353 1637 7200
- Ethical enquiries +44 (0)28 9043 5858
- Audit related courses +44 (0)28 9043 5840
- Audit related books and manuals +44 (0)28 9043 5840
- Education and Training Department :
  - queries on appropriate qualifications 00 353 1637 7200

Application forms and other information, including the audit regulations can be found at [www.carb.ie](http://www.carb.ie). Information about PII is at [www.carb.ie](http://www.carb.ie).

# Audit Regulations

## Chapter 1

### General

This chapter deals with the scope and interpretation of the regulations, transitional arrangements and how notifications should be made between the registering Institute and firms.

The regulations apply to all firms regardless of the registering Institute, unless stated otherwise.

Any delegated matter, on a case by case basis or in respect of categories of registered auditors or audits may, in certain circumstances, revert to the Competent Authority. If this occurs, the Competent Authority will conduct the matter under its own procedures and processes. **The Competent Authority may** exercise any of the powers in these regulations as if it was the RSB and may vary the regulations that it applies. The Competent Authority may also decide to delegate the functions to another RSB who can apply these regulations as if it was the original RSB and may vary the regulations that it applies.

**The Competent Authority will directly monitor and take** any necessary action against a registered auditor or responsible individual in respect of tasks not delegated to the RSBs. **It is then the procedures** of the Competent Authority that are applicable and the sanctions that it can apply, rather the procedures and actions set out in these regulations. Firms licensed by the Institute not only agree to be bound by these regulations but the rules and procedures of the Competent Authority and place themselves within the jurisdiction of its enforcement procedure

Currently the tasks not delegated to the RSBs and retained by the Competent Authority **are** the monitoring, investigation or sanctioning of audit work where this relates to the audits of public interest entities and such other audits as the Competent Authority may retain.

Public interest entities are defined in the legislation and include :

- **entities whose** transferable securities are admitted to trading on a UK regulated market;
- **credit institutions** (a bank or building society but not a credit union); and
- **insurance undertakings**

The FRC has also retained the audits of companies quoted on the Alternative Investment Market (AIM) or the ICAP Securities & Derivatives Exchange (ISDX) which have a market capitalisation greater than €200m on the basis of end-year quotes for the previous three calendar years and Lloyds syndicates. The FRC can amend the class of retained audits and the tasks that it has delegated. If that occurs, these regulations will be amended accordingly.

The regulations are printed in **bold** type and guidance in light type. Where defined terms (see schedule 1) are used in the regulations they are printed in *italics*. This does not apply to the guidance.

Guidance is provided to help registered 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**

**1.01** These *regulations* apply to *firms* seeking registration and to *firms* registered by the *Institute* as eligible for appointment as a *registered auditor* under the *Act*. The *regulations* also apply to *principals* and *responsible individuals* of the *firm*. In certain instances the *regulations* continue to apply notwithstanding that registration has ceased.

**1.02** These *regulations* are issued by authority of *Council*.

**1.02A** The responsibilities of the *registering Institute* set out in these *regulations* are delegated to it by the *Competent Authority*. If any delegated matter reverts to the *Competent Authority* then it can use its own procedures or exercise any of the powers in these *regulations* as if it were the *RSB* and may vary the *regulations* that it applies. As an alternative, the *Competent Authority* may delegate the matters to another *RSB* who can apply these *regulations* as if it was the *original RSB* and may vary the *regulations* that it applies.

**1.02B** *Firms* registered by the *Institute* not only agree to be bound by these *regulations* but the rules and procedures of the *Competent Authority* and place themselves within the jurisdiction of its enforcement procedure.

Tasks not delegated to the *RSB* (which include monitoring and enforcement of public interest and retained audits) are dealt with by the *Competent Authority* under its own procedures, compliance with which is required as part of these regulations

### **Definitions and interpretation**

**1.03** The definitions of terms used in the *regulations* and the rules of interpretation are in schedule 1 to this chapter. Section headings are not part of the *regulations* and are for guidance only. Any references to legislation, regulations, bye-laws, rules, standards or other documents, will apply to any re-enactment, re-issue or amendment.

### **Transitional arrangements**

**1.04** These *regulations* come into force on [1 January 2021] in respect of the audits of UK entities. From this date the

Audit Regulations (April 2008 edition, as amended) are no longer in force, subject to *regulation 1.06*.

**1.05** No longer applicable

**1.06** The liability of a *principal, audit affiliate* or *registered auditor* to regulatory or disciplinary action by the *registering Institute* is to be determined in accordance with the *regulations* in force at the time that the matter now the subject of that action occurred, but the proceedings shall be conducted in accordance with these *regulations* (including any subsequent amendments). The liability of a *principal, audit affiliate* or *registered auditor* to regulatory action by the *Competent Authority* is to be determined in accordance with the *Competent Authority's* procedures, as applicable.

Where the principal, audit affiliate or registered auditor is liable to action by the RSB, the above means that whether or not there has been an 'offence' under these regulations is determined by the audit regulations in force at the time the 'offence' took place, but the process of dealing with the matter will be as set out in these regulations.

### **Notifications**

**1.07** Any notice or document may be served on the relevant *registering Institute* by sending it to the appropriate address as follows:

The Institute of Chartered Accountants in England and Wales:  
Professional Conduct Department, Metropolitan House, 321  
Avebury Boulevard, Milton Keynes, MK9 2FZ.

The Institute of Chartered Accountants of Scotland:  
CA House, 21 Haymarket Yards, Edinburgh, EH12 5BH.

The Institute of Chartered Accountants in Ireland:  
The Linenhall, 32-38 Linenhall Street, Belfast, BT1 8BG.

or as otherwise notified to *firms*.

**1.08** Any notice, decision, order or other document which needs to be served on a *firm* or other person under these *regulations* will be delivered by hand, or sent by fax, post or email:

- a if it is delivered by hand to the addressee service will take effect immediately;
- b if sent by fax, it will be sent to the latest fax number given by the addressee and service will take effect immediately;
- c if sent by post, it will be sent to the latest address given by the addressee and service will take effect two business days after posting; or
- d if sent by email it must be sent to the latest email address notified by the addressee and service will take effect immediately.

### **Guidance**

**Guidance is provided to help with the application of** the regulations. It is distinguished from the regulations by being in light type. In a few cases there is too much guidance to include it with the regulations and so it is included in a separate section after the regulations and cross-referenced.

**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, registered auditors must always comply with the regulations, which take precedence over the guidance.

## Schedule 1

### Definitions and interpretation

#### Definitions

If a term has more than one meaning defined, the one to use will depend on the country of the registering Institute, or the country of the client being audited as appropriate.

In the regulations the following words have the following meanings.

the Act	<p><b>The Companies Act 2006 of the United Kingdom and every other enactment which is made under, or is to be read together with or as one with, that Act.</b></p> <p>This definition includes the requirements of SATCAR and The Statutory Auditors and Third Country Auditors (amendment)(EU Exit) Regulations 2019 (SI177 of 2019)</p>
the 2006 Act	<b>The Companies Act 2006 of the UK.</b>
Appeal Committee	<p><b>The committee of the registering <i>Institute</i> appointed under the <i>Institute's</i> Bye-laws, regulations or Rules with responsibility for hearing appeals against a decision of the Review Committee under these regulations. When a committee discharges these functions its members are to be treated as officers of the <i>Institute</i> for the purpose of regulation 2.04e.</b></p>
appropriate qualification	<p><b>A person holds an appropriate qualification if it is:</b></p> <ul style="list-style-type: none"> <li>• a qualification awarded by a recognised qualifying body under section 1219 of the 2006 Act;</li> <li>• an EEA qualification and an aptitude test if required under paragraph 6 of schedule 10 of the 2006 Act, but only if secured or in the process of being secured before 31 December 2020;</li> <li>• an approved non-EEA qualification, (and after 31 December 2020 an approved EEA qualification) and an aptitude test, if required under sections 1219 and 1221 of the 2006 Act.</li> </ul> <p>Note. The Institutes and the ACCA are 'recognised qualifying bodies' for the purposes of the UK legislation So the appropriate qualification they award is recognised in the UK.</p>
associate	<p><b>In relation to an entity, another entity in which it holds an interest on a long-term basis for the purpose of securing a contribution to its own activities by the exercise of control or influence arising from or related to that interest, or which holds such an interest in it. A holding of 20% or more is presumed to create an associate relationship.</b></p>
associated undertaking	<p><b>In relation to a <i>body corporate</i>:</b></p> <ul style="list-style-type: none"> <li>• a parent undertaking or subsidiary undertaking of the <i>body corporate</i> referred to; or</li> <li>• a subsidiary undertaking of a parent undertaking of the <i>body corporate</i>.</li> </ul>



audit	<p>a) (i) any function in respect of a company incorporated in the United Kingdom which is required to be performed by a <i>Registered Auditor</i> as auditor of that company;</p> <p>(ii) any function in respect of any of the following entities constituted in the United Kingdom which is required to be performed by a <i>Registered Auditor</i> as auditor of that entity:</p> <ul style="list-style-type: none"> <li>• a building society;</li> <li>• a credit union;</li> <li>• a charity;</li> <li>• an industrial and provident society;</li> <li>• a friendly society;</li> <li>• a pension scheme;</li> <li>• a limited liability partnership;</li> <li>• a partnership;</li> <li>• an open ended investment company;</li> <li>• a unit trust;</li> <li>• a Lloyds' syndicate;</li> <li>• a mutual life office;</li> <li>• a person authorised under legislation relating to the conduct of investment, insurance or mortgage business;</li> </ul> <p>where such function is expressly required to be discharged either by or under legislation applicable in the United Kingdom.</p> <p>(iii) any function in respect of a third country company which is traded on a United Kingdom, regulated market which is required to be performed by an auditor and which is performed by a <i>Registered Auditor</i> as auditor of that company or entity.</p> <p>b) any function in respect of a company incorporated in the United Kingdom which is included on the official list which is performed by a <i>Registered Auditor</i> following appointment as auditor of that company in relation to its financial statements or extracts of financial statements as required by a listing authority or a recognised company stock exchange in the UK.</p> <p>The reference above to an 'official list' is to the official list as defined in the Financial Services and Markets Act 2000, Part 6. It therefore does not include companies whose shares are publicly traded but that are not included in the official list.</p> <p>The reference above to a 'listing authority' is to the Financial Conduct Authority.</p> <p>The reference above to a partnership is to a partnership where all the partners are companies or Scottish partnerships and in the latter case, each partner in the partnership is a limited company.</p>
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The reference to a United Kingdom or third country means a body corporate:

- which is incorporated or formed under the law of a third country (other than Jersey, Guernsey and the Isle of Man)\* that is not an EEA member state;
- whose transferable securities (equity or debt) are admitted to trading on a regulated market situated or operating on the United Kingdom (e.g. the London Stock Exchange); and
- which has not been excluded (either as an individual company or class of companies or by country) by an order made under the 2006 Act, or by a direction or decision of the Competent Authority.

\* The exception with regard to a body corporate incorporated in Jersey, Guernsey, or the Isle of Man applies only to United Kingdom traded entities. .

Companies incorporated in Jersey, Guernsey and the Isle of Man have already been excluded in the UK, so this definition does not apply to them in a UK context. The latest list of excluded companies can be viewed at [www.frc.org.uk](http://www.frc.org.uk).

Should a registered auditor consider that there is a conflict between the requirements of these regulations (as applied to a particular UK traded third country company) and the third country law, then the firm should consider seeking a dispensation under audit regulation 2.17 from the Registration Committee.

The definition does not extend to reports relating to entities other than those specified.

The definition only embraces those circumstances where a report is required to be provided by a registered auditor in respect of any of the entities specified and the requirement is express and emanates from legislation (whether primary or secondary) or the rules of a recognised stock exchange (in connection with a company admitted to the official list). The definition does not encompass situations where a report is required by a registered auditor but where the firm does not have to be appointed as auditor to the entity (for example, a report about non-cash consideration under section 593 of the Companies Act 2006).

The report must be required by legislation that is applicable solely to one of the entities listed above. Reports commissioned, for example by a grant making organisation, where the grant could have been made to any person, to ensure that beneficiaries of funds have used them appropriately would not fall within the definition (even where the requirement for the body to commission such a report itself emanates from statute).

Persons authorised under legislation relating to the conduct of investment, insurance or mortgage business are those who can

	<p>undertake investment advice etc. These may include entities with permission under Part IV of the Financial Services and Markets Act 2000 (or regulations made under that Act).</p> <p>This definition of 'audit' does not include an independent examination for charities. Nor does it include any report required as part of a public offer of securities (prospectus) required by investment business legislation or any report on a circular to shareholders, required by a stock exchange, to authorise a transaction.</p>
audit affiliate	<ul style="list-style-type: none"> <li>• a person granted affiliate status by the ICAEW under clause 12A of the Supplemental Royal Charter of 21 December 1948 for the purposes of these <i>regulations</i>;</li> <li>• a person granted status as an affiliate by the ICAI in accordance with these <i>regulations</i> as provided for under ICAI's Principal Bye-laws; or</li> <li>• an individual granted Affiliate status by ICAS under Rule 2.2.1 or a firm under Rule 2.2.2 of the ICAS Rules for the purposes of these <i>regulations</i>.</li> </ul>
audit client	Any person whose accounts are being audited under these <i>regulations</i> by a <i>Registered Auditor</i> .
audit compliance principal	<p><b>A responsible individual who is either a principal of the Registered Auditor (or a sole practitioner where the Registered Auditor is a sole practice) or a member of its management board who is responsible for monitoring that the Registered Auditor has complied, and is likely to continue to comply, with these regulations and any relevant obligations of the Competent Authority, and whose identity is notified in writing to the registering Institute and who is the first point of contact with the registering Institute in connection with these regulations.</b></p> <p>The role of the audit compliance principal is to be responsible for ensuring that the firm complies with the audit regulations and any applicable obligation that is imposed by the Competent Authority. A major part of the responsibilities is to make sure the monitoring required by these regulations is carried out. The audit compliance principal need not carry out the reviews personally but should make sure that they are carried out satisfactorily and any appropriate action taken.</p>
audit report	<b>A report by a Registered Auditor which relates to an audit.</b>
auditing standards	<b>Auditing standards are the basic principles and essential procedures (shown in bold type) in the International Standards on Auditing which are to be construed and applied having regard to the explanatory text and other material in those standards. These are the International Standards on Auditing (UK) issued by the Financial Reporting Council.</b>

audit work	<b>Any work done by or on behalf of the <i>Registered Auditor</i> in respect of an <i>audit</i>.</b>
audit working papers	<b>Material (whether in the form of data stored on paper, film, electronic media or other media or otherwise) prepared by or for, or obtained by the Registered Auditor in connection with the performance of the audit concerned and includes :</b> <b>(a) the record of audit procedures performed;</b> <b>(b) relevant audit evidence obtained; and</b> <b>(c) conclusions reached.</b>
body corporate	<b>An entity that has a legal personality (including a limited liability partnership) and a similar body constituted under the laws of a country or territory outside the United Kingdom.</b>
business day	<b>A day excluding weekends and public holidays.</b>
Bye-laws	<b>The bye-laws of the ICAEW, the ICAS or the ICAI.</b>
Charter Amendment Acts of 1966	<b>The Institute of Chartered Accountants in Ireland (Charter Amendment) Act 1966 and The Institute of Chartered Accountants in Ireland (Charter Amendment) Act (Northern Ireland) 1966.</b>
Competent Authority	<p><b>The Financial Reporting Council Limited which pursuant to the Act is responsible for the regulation and oversight of <i>registered auditors</i> and responsible for the regulation and supervision of <i>RSBs</i> or any other body which takes over those functions.</b></p> <p>The Competent Authority may delegate any of the following matters:</p> <ul style="list-style-type: none"> <li>• the approval of firms as registered auditors;</li> <li>• the approval of individuals as responsible individuals;</li> <li>• setting procedures for maintaining the competence of responsible individuals;</li> <li>• monitoring the conduct of audit work;</li> <li>• investigating complaints; and</li> <li>• disciplining registered auditors.</li> </ul> <p>In making such delegations, the Competent Authority can set conditions on how the delegated functions are carried out. The delegation arrangements are set out in Delegation Orders issued pursuant to SATCAR.</p> <p>The delegation referred to above does not include the monitoring of the audit work, investigating complaints or disciplining registered auditors where this relates to the audit of a public interest entity or retained audits. This work remains with the competent authority.</p> <p>The Competent Authority is responsible for the supervision of audits of public interest entities.</p> <p>The RSBs may, in certain circumstances, also perform investigations regarding audit work in relation to the audit of a public interest entity, and in relation to retained audits. The enforcement consequences of any such investigations remain the responsibility of the Competent Authority.</p>

Controller	A person who, alone or with any <i>associate</i> or <i>associates</i> , is entitled to exercise or control 15% or more of the rights to vote on all or substantially all matters at general meetings of a <i>body corporate</i> , or of another <i>body corporate</i> of which it is a subsidiary undertaking.
corporate practice	A <i>body corporate</i> , excluding a limited liability partnership.
Council	<ul style="list-style-type: none"> <li>• the Council of the ICAEW under Clause 2 of the Supplemental Royal Charter of 21 December 1948;</li> <li>• the Council of the ICAS under its Royal Charter and Rules; or</li> <li>• the Council of the ICAI under section 3 of the Charter Amendment Acts of 1966.</li> </ul>
director	Any person occupying the position of director (called by whatever name) in a <i>corporate practice</i> . Also any person under whose directions or instructions the directors of the <i>corporate practice</i> are used to acting.
Disciplinary Committee	The committee of the registering <i>Institute</i> appointed under the <i>Institute's Bye-laws</i> , regulations or <i>Rules</i> with responsibility for disciplining members, firms and others in accordance with the <i>Bye-laws</i> , regulations or <i>Rules</i> . When a committee discharges these functions its members are to be treated as officers of the <i>Institute</i> for the purpose of <i>regulation 2.04e</i> .
employee	<p>Anyone who carries out audit work for a <i>Registered Auditor</i>, including a sub-contractor or a consultant.</p> <p>A sub-contractor or consultant cannot become a responsible individual.</p>
ethical standards	The basic principles and essential procedures (shown in bold type) in the Ethical Standards issued by the Financial Reporting Council which are to be construed and applied having regard to the explanatory text and other material in those standards.
EEA auditor	<p>An individual who holds a qualification to audit accounts under the law of an <i>EEA member state</i></p> <p>While an EEA auditor can be counted towards those who control a registered auditor, unless any required aptitude test is taken, an EEA auditor cannot be a responsible individual and so in charge of audit work, see chapter 4.</p>
EEA audit firm	A <i>firm</i> eligible for appointment as an auditor under the law of an <i>EEA member state</i> .
EEA member state	Any country that is a signatory to the European Union and European Community Treaties (i.e. EU member states) and Iceland, Liechtenstein, Norway. Gibraltar is also treated as an EEA member state by the 2006 Act.

eligibility criteria	The criteria set by the UK Competent Authority that a <i>firm</i> has to meet for it to be a <i>registered auditor</i> or for an individual to be a <i>responsible individual</i> .
firm	<ul style="list-style-type: none"> <li>• an individual who engages in the profession of accountancy as a sole practitioner;</li> <li>• a partnership which engages in the profession of accountancy;</li> <li>• a limited liability partnership which engages in the profession of accountancy; or</li> <li>• a <i>corporate practice</i> which engages in the profession of accountancy.</li> </ul>
Group	A <i>corporate practice</i> , any parent or subsidiary undertakings and any parent or subsidiary undertakings of any of them.
Institute	<ul style="list-style-type: none"> <li>• the Institute of Chartered Accountants in England and Wales (ICAEW);</li> <li>• the Institute of Chartered Accountants of Scotland (ICAS); or</li> <li>• the Institute of Chartered Accountants in Ireland (ICAI) operating as Chartered Accountants Ireland.</li> </ul>
Investigation Committee	The committee of the registering <i>Institute</i> appointed under the <i>Institute's Bye-laws</i> , regulations or <i>Rules</i> with responsibility for considering complaints against members, firms and others as specified in the <i>Bye-laws</i> , regulations or <i>Rules</i> . When a committee discharges these functions its members are to be treated as officers of the <i>Institute</i> for the purpose of <i>regulation 2.04e</i> .
Management board	Any committee, board or other management body that is responsible for setting and directing the implementation of the <i>firm's</i> policies.
monitoring unit	The monitoring unit established by <ul style="list-style-type: none"> <li>• a registering <i>Institute</i> in accordance with paragraph 12 of schedule 10 of the 2006 Act; or</li> <li>• a body established by the <i>Competent Authority</i>; for the purposes of monitoring the undertaking of <i>audits</i>.</li> </ul>
Panel	A sub-committee of the Registration Committee of the ICAS.
PII regulations	Regulations of the <i>Institutes</i> pertaining to Professional Indemnity Insurance.
practising certificate	A certificate issued to a member by an <i>Institute</i> authorising the member to engage in public practice.
practice notes	<p>Practice notes and bulletins issued by, or with the authority of, the <i>Competent Authority</i> including those issued by the FRC prior to 17<sup>th</sup> June 2016.</p> <p>These give guidance on how auditing standards can be applied in particular circumstances and industries.</p>

principal	<p>An individual in sole practice, (where the <i>firm</i> is a sole practice), a person who is a partner (including both salaried and equity partners) (where the <i>firm</i> is a partnership), a member of a limited liability partnership (where the <i>firm</i> is a limited liability partnership) a <i>director</i> (where the <i>firm</i> is a company) or any individual who is held out as being a company director, partner or member.</p> <p>Corporate practices or limited liability partnerships may be principals, where these regulations allow.</p>
Public interest entity	<p>A public interest entity is as defined in SATCAR and S.I. No177 of 2019 and includes:</p> <ul style="list-style-type: none"> <li>• An entity whose transferable securities are admitted to trading on a uk regulated market;</li> <li>• A credit institution; and</li> <li>• An insurance undertaking.</li> </ul> <p>The reference above to trading on a regulated market refers to entities included on the 'official list'. This is the official list of the London Stock Exchange</p> <p>A credit institution is a bank or building society but not a credit union.</p>
quality control standards	<p><b>The basic principles and essential procedures (shown in bold type) in the International Standards on Quality Control which are to be construed and applied having regard to the explanatory text and other material in those standards, as issued or adopted by the Competent Authority or issued by the FRC prior to 17<sup>th</sup> June 2016.</b></p>
Recognised Qualifying Body ('RQB')	<p><b>A body which offers a professional qualification which is recognised in accordance with Schedule 11 of the 2006 Act by the Competent Authority for the purposes of the 2006 Act with regard to statutory auditors.</b></p>
Recognised Supervisory Body (RSB)	<p><b>A body recognised under the Act to which the Competent Authority has delegated certain functions in respect of the registration and supervision of Registered Auditors.</b></p>
Register	<p><b>The register of auditors compiled under section 1239 of the 2006 Act</b></p>
Registered Auditor	<p><b>A firm entered on the register as eligible for appointment as a statutory auditor under section 1239 of the 2006 Act</b></p>
registering Institute	<p><b>The Institute to which the firm is applying for or from which it has obtained registration.</b></p>

Registration Committee	<ul style="list-style-type: none"> <li>• The committee of the registering <i>Institute</i> appointed under the Institute's Bye-laws, regulations or <i>Rules</i> with responsibility for discharging the functions set out in Chapter 6 or any sub-committee of that committee. When a committee discharges these functions its members are to be treated as officers of the <i>Institute</i> for the purpose of regulation 2.04e;</li> <li>• The <i>Competent Authority</i> when discharging functions under these <i>regulations</i>; or</li> <li>• Another <i>RSB</i> to which the <i>Competent Authority</i> has delegated functions under the <i>Act</i>.</li> </ul> <p>If any delegated matter reverts to the Competent Authority (on a case by case basis or in respect of categories of registered auditors or audits) then it can conduct the matter under its own procedures or processes which shall bind the <i>firm</i> or the <i>responsible individual</i> as if it were a sanction which the <i>Registration Committee</i> had determined</p> <p>The Competent Authority can elect not to conduct the matter under its own procedures or processes and can instead exercise any of the powers in these regulations as if it were the RSB/ and may vary the regulations that it applies. As an alternative, the Competent Authority may delegate the functions to another RSB who can apply these regulations as if it was the original RSB and may vary the regulations that it applies.</p>
regulations	<b>These regulations as modified or amended.</b>
regulatory penalty	<b>An amount imposed with the consent of a <i>Registered Auditor</i> as a penalty for breaches of these <i>regulations</i> which the <i>Registered Auditor</i> agrees have been committed.</b>
responsible individual	<p><b>A <i>principal</i> or employee responsible for audit work and designated as such under regulation 4.01.</b></p> <p>The 2006 Act uses the term "senior statutory auditor" for the individual identified by a registered auditor in relation to a specific audit of a UK company who signs the audit report in his own name on behalf of the registered auditor. This individual must be a responsible individual.</p>
Retained Audit	<p><b>An <i>audit</i> conducted under the <i>Act</i> in respect of a <i>public interest entity</i> or any other <i>audit</i> retained by the <i>Competent Authority</i>.</b></p> <p>The FRC has retained companies quoted on the Alternative Investment Market (AIM) or the ICAP Securities &amp; Derivatives Exchange (ISDX) which have a market capitalisation greater than €200m on the basis of end-year quotes for the previous three calendar years.</p>
Review Committee	<b>Any committee appointed under a registering <i>Institute's</i> Bye-laws, regulations or <i>Rules</i> with responsibility for</b>



	reviewing decisions made by the <i>Registration Committee</i> as specified in these regulations. When a committee discharges these functions its members are to be treated as officers of the <i>Institute</i> for the purpose of regulation 2.04e.
Rules	The rules of the ICAS.
SATCAR	The Statutory Audit and Third Country Auditor Regulations 2016.
SI177 of 2019	The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019
Third Country	Any country outside the UK, which include EEA states.
voting rights	The rights to vote on all or substantially all matters at meetings of principals or shareholders of the body in question. In deciding what voting rights are to be taken into account, paragraphs 5 to 11 of schedule 7 to the 2006 Act, apply to corporate practices and limited liability partnerships, and paragraphs 5 to 7 and 11 of that schedule, apply to partnerships.

### Interpretation

Words and expressions have the meanings given by the Act and the Interpretation Act 1978 unless defined in these regulations. The definitions in these regulations take precedence.

In these regulations words importing the singular number include the plural number and vice versa. Words importing one gender import all genders. Headings do not affect the interpretation of these regulations. These regulations will be governed by, and interpreted according to, the law of the country of the registering Institute.

## Chapter 2

### Eligibility, application for registration, continuing obligations and cessation of registration

This chapter sets out the eligibility criteria for becoming a registered auditor and how to make an application. It then sets out the continuing obligations once registered and how registration can end. Chapter 4 has the regulations concerning responsible individuals and chapter 5 has the regulations covering audit affiliates.

While there is no requirement in the regulations for a firm's notepaper to carry a legend stating that it is a registered or statutory auditor, the Provision of Services Regulations 2009, require such a disclosure to clients and potential clients, together with the name of the 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 of the registering Institute is:

'registered to carry on audit work in the UK by the [Institute name in full]'

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

'details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) for the UK, under reference number [this is the firm number provided by the registering Institute]'

If a firm is registered both in the UK and a third country (such as the Republic of Ireland) then this should be fully disclosed. However if the firm only accepts audit appointments in one, details of the other country can be omitted from any letterhead legend but should be made available by some other means, for example, on the firm's website.

In addition, a firm may describe itself as a firm of registered auditors or statutory auditors.

#### **2.01 No Institute member or firm may accept an *audit* appointment unless registered by a RSB/ or the Competent Authority.**

Under the Companies Act, responsible individuals (see chapter 4) are statutory auditors in their own right. However, statutory auditors can only accept appointment as auditors in accordance with the rules of a RSB, such as the Institutes. The Institutes, as supervisory bodies, have responsibilities under the Act to monitor the work of responsible individuals and auditors they register and to ensure that auditors are complying with legal requirements and the requirements of these Regulations. Thus an individual, even if a responsible individual in accordance with chapter 4, cannot accept audit appointments unless also a registered auditor under these regulations, or the regulations of another RSB.

In certain circumstances the competent authority may reclaim the task of registering a member or firm directly. In such cases, the Competent Authority may apply these Regulations.

## **Eligibility**

The FRC as the Competent Authority in the UK sets the eligibility criteria which the RSBs are required to follow in exercising the registration function Regulations 2.02 to 2.03A incorporate the requirements of these eligibility criteria. If the eligibility criteria change these regulations will be amended accordingly.

A key purpose of the Act is to make sure that only those appropriately qualified are appointed as statutory auditors. Therefore, under the Act, the registering Institute, as a RSB must have rules governing the control of registered 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 Institutes and the ACCA are 'recognised qualifying bodies'. So the appropriate qualification they award is recognised by all RSBs. 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 chapter 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 registered auditors, those who hold the equivalent of an appropriate qualification from an EEA state, from the UK, or who (up until 31 December 2020) are the equivalent of a registered auditor from an 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:

- be fit and proper;
- comply with the PII regulations; and
- meet the requirement that it is controlled by individuals who hold the 'appropriate qualification' (see chapter 4), other registered audit firms, EEA auditors or EEA audit firms (the exact requirements are set out in regulation 2.03).

**2.02 The Registration Committee may register a firm only if the committee is satisfied that:**

- a the firm is fit and proper to be appointed as a *Registered Auditor*;
- b the firm has professional indemnity insurance or other appropriate arrangements as required either by the *PII regulations*, or in the case of a firm which is an employee of an Auditor General under the Act, has the benefit of a statutory indemnity;
- c the firm has appointed an *audit compliance principal* whose name has been given to the *registering Institute*;
- d each *responsible individual* has been designated in accordance with *regulation 4.01*;

- e     if the *firm* is a sole practice, the sole practitioner is a *responsible individual* and the *audit compliance principal* (and if not a member of an *Institute* or a member of the Association of Chartered Certified Accountants is an *audit affiliate* of the *registering Institute*);
- f     the *firm* satisfies any other *eligibility criteria* set by a *Competent Authority* or in *legislation*.
- g     if the *firm* is not a sole practice, the *firm* meets the additional requirements of *regulation 2.03*.

Regulation 2.02 sets out the conditions which a firm must satisfy to become a registered auditor. The firm either meets the conditions of sub-paragraphs (a) to (g) or it does not. Although the concept of 'fit and proper' in section (a) is difficult to define, this is the most important condition. Guidance on fit and proper status is in chapter 1 of the guidance section.

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 Registration Committee. The committee will not automatically reject the application for registration but will consider the matter further.

Clearly, to be fit and proper, a firm should be complying with the fundamental ethical principles. These are contained in the members' handbook. The following is a summary.

- 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.

To assess the competence of the firm to do regulated audit work the 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.

If the 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.

The PII regulations can be found in the ICAEW's Members Handbook; Chartered Accountants Ireland's Public Practice Regulations, which are available at [www.carb.ie](http://www.carb.ie); and the PII Regulations, which are available on the ICAS website.

**2.03 The additional requirements for a *firm* which is not a sole practice are:**

- a each *principal* is either:
  - 1) a member of an *Institute*;
  - 2) a member of the Association of Chartered Certified Accountants;
  - 3) an *audit affiliate* of the *registering Institute*;
  - 4) a *Registered Auditor*;
  - 5) an *EEA auditor* who is also an *audit affiliate* of the *registering Institute*; or
  - 6) up until 31 December 2020 an *EEA audit firm* which is also an *audit affiliate* of the *registering Institute*;
- b individuals who have an *appropriate qualification*, *Registered Auditors*, *EEA auditors* and up until 31 December 2020 *EEA audit firms* or a combination of these hold at least a majority of the *voting rights* or hold such rights under the *firm's* constitution as enable them to direct its overall policy or alter its constitution;
- c individuals who have an *appropriate qualification*, *Registered Auditors*, *EEA auditors* and up until 31 December 2020 *EEA audit firms* or a combination of these hold at least a majority of the *voting rights* in the *management board* or hold such rights under the *firm's* constitution as enable them to direct its overall policy or alter its constitution; and

**d where the *firm* is a *corporate practice* the Articles of Association:**

- 1) require its shareholders to notify it of any changes in the number of shares held in the *corporate practice*, whether the shares are held directly or indirectly;
- 2) enable the board of *directors* to require shareholders to supply information about their shareholdings in the *corporate practice* over the previous three years;
- 3) enable the board of *directors* to require any non-shareholder whom the *directors* know or have reasonable cause to believe has or had an interest in the shares of the *corporate practice* to supply information about their interests in the previous three years;
- 4) enable the board of *directors* to deprive any shareholder of the right to vote if the information asked for in *regulation 2.03d.2* or *2.03d.3* is not given in the time specified in the request;
- 5) enable the board of *directors* to deprive any shareholder of the right to vote if the *corporate practice's* application for registration is rejected under *regulation 2.05*, or registration has been withdrawn under *regulation 7.03*, and the *corporate practice* has been told that the refusal or withdrawal relates to the ownership of any shareholding; and

- 6) **require the board of directors to approve any transfer of shares which would result in a shareholder having an interest representing more than 3% of the aggregate nominal value of the issued share capital.**

Any principal who is not a member of an Institute or the ACCA or a registered auditor must become an audit affiliate of the registering Institute. This is dealt with in chapter 5.

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 registered auditors, or be EEA qualified auditors, or, up until 31 December 2020 EEA audit firms. However, if voting rights are not held equally then at least a majority must be held by a combination of individuals who hold an appropriate qualification, registered auditors, , EEA qualified auditors, or up until 31 December 2020 EEA audit firms.

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 individuals who hold an appropriate qualification, registered auditors, EEA qualified auditors, and up until 31 December 2020, EEA audit firms

In assessing whether a partnership or limited liability partnership is eligible to be registered, the following points should be considered.

- **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.
- **Non-member principals:** if any principals are not members of one of the Institutes, the ACCA or a registered auditor, they must become audit affiliates.
- **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.

A firm may also be controlled by individuals who hold an appropriate qualification, registered auditors, EEA qualified auditors, or up until 31 December 2020 EEA audit firms who have such rights under the firm's constitution as enable them to direct its overall policy or alter its constitution.

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The Institutes and the ACCA are 'recognised qualifying bodies' for the purposes of UK legislation. So the appropriate qualification they award can be used to count toward the control percentage of the firm for audit purposes, as can an EEA qualification (both pre and post Brexit regardless of whether the holder has taken an aptitude test). However for non-EEA qualifications, the approval process is different in each country, so a qualification approved in one country may not be approved in the other. So if you hold an appropriate qualification obtained by this latter route, you

can only count towards the control percentage for audit registration purposes in the jurisdiction that the aptitude test relates to.

You are advised to consult the registering Institute if clarification is required.

For investment business purposes, different considerations apply for affiliates. Being an affiliate in one regulated area does not automatically give that status in another.

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 – 2.20.

**2.03A Up until 31 December 2020 the requirements for registration for a *firm* which is an *EEA audit firm* are:**

- a the *firm* can provide evidence of professional indemnity insurance that is similar to the requirements of the *PII regulations*;
- b the *firm* has appointed an *audit compliance principal* whose name has been given to the *registering Institute*;
- c each *responsible individual* has been designated in accordance with *regulation 4.01*;
- d each *principal* is either:
  - 1) a member of an *Institute*;
  - 2) a member of the Association of Chartered Certified Accountants;
  - 3) an *audit affiliate* of the *registering Institute*;
  - 4) a *Registered Auditor*;
  - 5) an *EEA auditor* who is also an *audit affiliate* of the *registering Institute*; or
  - 6) an *EEA audit firm* which is also an *audit affiliate* of the *registering Institute*;
- e the *firm* provides proof of its eligibility as an *EEA audit firm* in the form of a certificate, dated not more than three months before it is provided to the *registering Institute*, from the Competent Authority or counterpart authority of the *EEA member state* concerned; and
- f a declaration made with the authority of the *firm* that it agrees to be bound by these *regulations* and will make sure that it complies with these *regulations* at all times.

Firms that are already registered in an EEA member state may apply for registration as a registered auditor. If such a firm is registered then the registering Institute is required to inform the Competent Authority of the relevant EEA member state.

This registration route will only apply during the transitional period up until 31 December 2020. After that date EEA audit firms will become third country auditors and if the basis for their current registration is regulation 2.03A, they will need to re-apply under such arrangements that have been agreed between the UK and the relevant EEA state by that date.

## Application for registration

**2.04** A *firm* that wishes to register must apply in the manner that the *Registration Committee* decides. The application must include the following:

- a any information that the *Registration Committee* may require to assess the ability of the *firm* to carry out *audit work*;
- b a declaration made with the authority of the *firm* that it agrees to be bound by these *regulations* and will make sure that it complies with these *regulations* at all times;
- c a declaration made with the authority of the *firm* that it will deal with the *registering Institute* in an open and cooperative manner and inform the *registering Institute* promptly about anything concerning the *firm* that these *regulations* require;
- d a declaration made with the authority of the *firm* that it agrees to be bound by the procedures, rules and guidance, as may be issued from time to time by the *Competent Authority* in the exercise of its statutory functions.
- e the name and address of the *audit compliance principal*; and
- f an acknowledgement by the *firm* that none of the *registering Institute*, its officers or staff, members of its *Council* or its committees or a *monitoring unit* or the *Competent Authority* or its staff, can be held liable in damages for anything done or not done in dealing with any of the functions connected with registration under the *Act* or under these *regulations* or enforcing the terms of either or the monitoring of compliance with these *regulations* in any respect, unless the act or omission is shown to have been in bad faith.

To enable the committee to assess a firm's ability to do audit work as a registered auditor, it may wish to review other work that the firm has already done. This would be work involving auditing standards or expressing an opinion.

Firms should request an application form from the appropriate registering Institute.

**2.05** The *Registration Committee* may:

- a grant the application;
- b reject the application;
- c grant the application subject to restrictions or conditions;
- d postpone consideration of the application.

or

Under regulation 2.05d, the 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.



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 for firms registered with the ICAEW or the ICAI. Firms registered with the ICAS should refer to regulation 8.15.

### **Continuing obligations**

**2.06** *A Registered Auditor must continue to meet the requirements of these regulations.*

**2.07** *Subject to regulations 2.17 to 2.20, a Registered Auditor must not continue as an auditor if it ceases to meet one or more of the eligibility requirements of regulation 2.02, 2.03 or 2.03A.*

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 2.17-2.20.

**2.08** *A Registered Auditor must cooperate with the registering Institute, its staff, committees, a monitoring unit, and the Competent Authority and its staff.*

**2.09** *A Registered Auditor or former Registered Auditor on whom the registering Institute serves a notice requesting information or notice of a visit under regulation 2.23 or 6.02k (or upon whom a notice is served requesting information by the Competent Authority or under the Act) must comply with such notice within such period as the registering Institute may allow (or in the case of a notice served by the Competent Authority or under the Act, as the notice provides).*

When the registering Institute serves a notice under the above regulation, the notice will specify by when the firm must deal with the matters in the notice. A registering Institute 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.

**2.09A** *A Registered Auditor must comply with the monitoring arrangements of the registering Institute and those of the Competent Authority and any other procedures, rules and guidance, as may be issued from time to time by the Competent Authority in the exercise of its statutory functions.*

**2.10** *Where a Registered Auditor or up until 31 December 2020 an EEA audit firm is a principal or shareholder in another Registered Auditor, then its interests at meetings of principals, the management board or shareholders must be represented by an individual who is either the holder of an appropriate qualification or is an EEA auditor approved or in the process of being approved before 31 December 2020.*

A principal or shareholder in a registered auditor may be another registered auditor or an EEA audit firm subject to the 31 December 2020 cut-off. The

above 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 *approved or in the process of being approved before 31 December 2020*. It is important that decisions are taken at meetings by those who have audit experience.

**2.10A** A *Registered Auditor* must provide such returns, statements or other information as considered necessary and in a form decided by the *Registration Committee*

### Changes in circumstances

**2.11** A *Registered Auditor* must inform the *registering Institute* in writing as soon as practicable, but not later than ten *business days* after the event:

- a of any matter, whether relating to the *firm* or to any of its *principals* or *employees*, which could mean that the *firm* is no longer fit and proper to be appointed as a *Registered Auditor*;
  - b if the *firm* is no longer complying with the requirements of *regulations 2.02b* or *2.03Aa*;
  - c of any other changes which might affect a *firm's* eligibility to be registered or its ability to conduct *audit work*;
  - d of any change in:
    - 1) the name or trading names of the *firm*;
    - 2) the addresses of the *firm's* offices;
    - 3) the names or principal business address of any of the *firm's principals* or *responsible individuals* including new *principals* or *responsible individuals*;
    - 4) the details of any other audit registration that any *responsible individual* has in another country, the name of the registering body and any registration number; or
    - 5) the name or address of the *audit compliance*
- principal*;
- e if a *responsible individual* leaves the *firm* or ceases to be a *responsible individual*;
  - f in the case of a *corporate practice*, of any change in:
    - 1) the name or address of a shareholder or anyone with any interest in the shares; and
    - 2) any change in the number of shares held by a shareholder or in the number of shares in which anyone has an interest;
  - g of any change in the website address of the *firm*;
  - h of any change in the name or business address of any member of the *management board*; or
  - i of any change in details of any other audit registration that the *Registered Auditor* has in another country, the name of the registering body and any registration number.

The eligibility criteria are set out in regulations 2.02, 2.03 and 2.03A.

If a firm temporarily loses its eligibility, the firm may not necessarily lose its registration as the Registration Committee can waive the eligibility requirements (see regulations 2.17 – 2.20). Therefore, firms should notify the registering Institute as soon as possible if they are planning any changes so that registration is not interrupted.

A firm should also, under regulation 2.11c, notify the registering Institute of any matter affecting its financial stability. This would include a principal entering into an individual voluntary arrangement, or a firm reaching a similar arrangement.

The registering Institute has a duty to keep the information on the public audit register up to date. To do this, firms must inform the registering Institute 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.

Before a registered auditor appoints a new responsible individual it must seek the approval of the Registration Committee, see chapter 4.

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.

An EEA audit firm that is registered by virtue of regulation 2.03A must inform the registering Institute immediately if it is no longer registered by the competent authority that supplied the certificate under regulation 2.03Ae.

**2.12 A Registered Auditor which is a member of a network must:**

- a maintain a list of the names and addresses of all:**
  - 1) other firms in the network and their affiliates;**
  - and**
  - 2) its own affiliates;**
- b make that list available to members of the public;**
- c update the list with any changes no later than ten business days after the change; and**
- d inform the registering Institute of the location of the list and of any change to the location no later than ten business days after the change.**

A network is a larger structure aimed at cooperation which a registered auditor belongs to and which is:

- controlled by the registered auditor;
- clearly aimed at profit or cost sharing;
- under common ownership, control or management; or
- affiliated or associated with the registered auditor through common quality control policies and procedures, a common business

strategy, the use of a common brand-name or through the sharing of significant common professional resources.

For the purpose of this regulation an 'affiliate' means any entity, regardless of its legal form, which is connected to a firm by means of common ownership, control or management.

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.

The registering Institute has a duty to keep the information on the public audit register up to date. To do this, firms must inform the registering Institute 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.

### **Fees**

**2.13** A *Registered Auditor* must pay such registration fees (to include any costs that the *registering Institute* is required or has agreed to pay to any other person or body exercising a regulatory or supervisory role in relation to it) as the *registering Institute* determines, at the times and at the rates set by it.

**2.14** The first registration fee is due when a *firm* applies for registration. An application fee is also payable with this first fee.

If a firm's application is not accepted, the first registration fee will be refunded.

**2.15** The *registering Institute* may charge a *Registered Auditor* to which its representatives have made a second or subsequent visit as a result of an earlier visit. The *Registration Committee* will decide how much the fee will be.

The 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.

**2.16** If a *Registered Auditor* has not paid any fees under *regulation 2.13* or *regulation 2.15*, within 60 days of the invoice date, the *registering Institute* may withdraw its registration.

### **Dispensation**

**2.17** If a *Registered Auditor* ceases to meet one or more of the eligibility requirements of *regulation 2.02*, *2.03* or *2.03A* (where appropriate), or if it considers that it is impossible or impractical to comply with any other *regulation*, it must notify the *Registration Committee* in writing. The notification must be within ten *business days* of the situation arising and must say what has happened and the action which the *Registered Auditor* proposes to take.

**2.18** The *Registration Committee* will review the information provided under *regulation 2.17*. If the committee considers that the *Registered Auditor* is taking all practical steps and

that these will remedy the position, it may grant the *Registered Auditor* a dispensation from the requirement to comply with any *regulation* under such terms as are permitted in legislation.

2.19 In the case of a matter relating to the additional eligibility requirements for a *Registered Auditor* (set out in *regulation* 2.03) the dispensation will not last for more than 90 days, starting from the date that the situation first arose. In any other case the period will be set by the *Registration Committee*.

2.20 The *Registration Committee* will not grant a dispensation under *regulation* 2.18 unless the *Registered Auditor* can satisfy the committee that its continued registration during the dispensation period would not adversely affect an *audit client* or any other person.

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

### **Cessation of registration**

2.21 A firm will cease to be a *Registered Auditor* if:

- a the *Registration Committee* accepts an application from the firm to cancel its registration;
- b the firm ceases to exist;
- c the *Registration Committee* withdraws registration under *regulation* 7.03;
- d the *Competent Authority* issues a decision withdrawing registration;
- e a firm registered under *regulation* 2.03A ceases to be an *EEA audit firm*; or
- f. the registered key audit partner of an EEA member firm ceases to be approved by the registering Institute or ceases to be a *Responsible Individual* in the EEA firm.
- g. it is an EEA member firm registered under *regulation* 2.03Ae as at 31 December 2020 when qualification ceases

A firm may ask for a review if its registration is to be withdrawn under *regulation* 2.21c. Withdrawal at the firm's request, because the firm no longer exists or is no longer an EEA audit firm, cannot lead to a review. If a firm which is no longer registered wishes to register again it can apply in the normal manner. Any decision of a *Competent Authority* that registration is to be withdrawn is subject to the appeal procedures of that body, not any procedure under these regulations.

2.22 The *Registration Committee* may require a firm which has ceased to be registered to provide evidence that it has resigned from all *audit* appointments and provide details of any *audit* registrations it has in any other *EEA member state*.

The committee may wish to satisfy itself that a firm, once de-registered, no longer has any audit clients. If the Registration Committee withdraws registration under regulation 7.03, and the firm is registered to undertake audits in an EEA member state, the Registration Committee will notify the registering body in that EEA member state.

**2.23 If a firm is no longer a Registered Auditor:**

- a** it must still respond to enquiries (made in writing or by visiting a *firm's* office or offices) from the *Registration Committee* or the *Competent Authority* in connection with any circumstance that relates to these *regulations* during the time the *firm* was registered;
- b** it must still respond to enquiries made by another *Registered Auditor* in accordance with *regulation 3.09*;
- c** disciplinary action (including the imposition of a regulatory penalty) or action by a *Competent Authority* may still be taken for:
  - 1) any failure to comply with these *regulations* during the time it was registered;
  - 2) any failure to comply with any *regulation* continuing to have effect notwithstanding that registration has ceased;
  - 3) any failure to keep confidential any information received in the course of *audit work*.

**2.24 The registering Institute's right to recover any unpaid fees or other amounts due from a firm under these regulations does not end when a firm is no longer registered.**

The effect of regulation 2.23 is that a firm cannot escape disciplinary action by de-registering. If, in the process of de-registering, the 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. A Competent Authority may also take action against a firm or individual after de-registration if the matter occurred before the de-registration.

## Chapter 3

### Conduct of audit work

The Act states that the Institute, 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. Registered 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 the Institutes monitor registered auditors to ensure they are complying with these regulations. For some types of audit, this monitoring must be conducted independently of the registering Institute.

The law requires that the rules relating to the conduct of audit work have to be written by an independent body. Thus the Institutes have adopted the auditing, quality control and ethical standards of the Competent Authority. The standards adopted are:

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

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 chapter 2. Once registered, the registering Institute 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 (for example that audits are conducted according to 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 regulations, and associated guidance, deal with matters that relate to firms' audit work.

## Independence and Integrity

- 3.01 A *Registered Auditor* must not accept an appointment or continue as an auditor if the *firm* has any interest likely to conflict with the proper conduct of the *audit*.
- 3.02 A *Registered Auditor* must act in accordance with the fundamental principles set out in the Code of Ethics issued by *Council* and the *ethical standards*.
- 3.03 A *Registered Auditor* must consider its independence and ability to perform the *audit* properly and record this before it accepts appointment or reappointment as auditor.
- 3.04 A *Registered Auditor* must not accept or continue an *audit* appointment of an entity where there exists a relationship between the *Registered Auditor* and the entity which is prohibited by the Act or by ethical standards or quality control standards.

A registered auditor is prevented from accepting or continuing an audit appointment of an entity where;

- a there exists between the *Registered Auditor* and the entity a relationship where the law prohibits the *Registered Auditor* auditing that entity;
- b the entity is a shareholder in the *Registered Auditor*;
- c the entity can be influenced by a shareholder in the *Registered Auditor*;
- d the entity is a *principal* in the *Registered Auditor*;
- e the entity, being neither a shareholder or *principal* in the *Registered Auditor* has the ability to influence the affairs of the *Registered Auditor*;
- f the *Registered Auditor* is a shareholder in the entity;
- g the *Registered Auditor* is a *principal* in the entity; or
- h the *Registered Auditor* is in a position to exercise influence over the entity.

The above regulation 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 registered 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. 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.



Registered auditors are also reminded that the ethical standards and in particular quality control standards include material about situations where a firm should consider accepting or continuing an audit appointment.

Schedule 1 sets out the above regulation in the form of a diagram.

The main considerations which should be followed are contained in the Code of Ethics. This is included in the Members Handbook of the ICAEW, the ICAI website and the ICAS website. This in turn requires firms to follow the Competent Authority's ethical standards. Firms should refer to these documents for a fuller discussion of the matters that can threaten a registered auditor's independence. (See also effective dates in Introduction above)

Contracts of employment (with employees, sub-contractors 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.

As well as material on independence, other relevant statements (for example on conflicts of interest) are contained in the Members' Handbook of the ICAEW, the ICAI website and the ICAS website.

**3.05 A Registered Auditor must always conduct audit work properly and with integrity.**

Integrity means more than just honesty. It includes fair dealing, truthfulness and the desire to follow and maintain high standards of professional practice.

**3.06 A Registered Auditor must make arrangements so that each principal and anyone the firm employs to do audit work or permits to be involved in its audit work is, and continues to be, a fit and proper person.**

Guidance chapter 1 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 sub-contractors and consultants who may assist with audit work. They must satisfy the same requirements as anyone employed directly by the registered auditor.

It is recommended that every principal, employee, sub-contractor 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.

When a registered auditor sub-contracts 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 sub-contractor should be treated as an employee for the purposes of the work. Where this involves firms or personnel in another country, fit and proper assessment needs to be exercised and adapted within the confines of the law of that other country and appropriately documented.

Some of the auditing standards deal with procedures for auditors who use the work of others in connection with the audit. These are:

- 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'.

**3.07 A Registered Auditor must make arrangements to prevent anyone who is not a responsible individual in the firm from having any influence which would be likely to affect the independence or integrity of the audit.**

Regulation 3.07 is particularly important for mixed practices or associated firms whose principals are not responsible individuals, 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 that sufficient and appropriate audit evidence has been obtained prior to signing the audit report must always be in the hands of responsible individuals.

Where a registered auditor uses, for the purposes of its own audit work (not being the audit of a foreign subsidiary), 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 auditing standards and the legislation under which the auditor is reporting.

**3.08 A Registered Auditor must comply with the requirements of the Act and other relevant legislation.**

The requirements include:

- appointment;
- ceasing to hold an appointment and making appropriate resignation statements; and
- the responsibilities of the auditor to provide an opinion on whether financial statements are in accordance with the legislation.

The legislation would normally be:

- Companies Act 2006 (UK) ;
- The Statutory Auditors and Third Country Auditors Regulations 2016 (UK)
- 
- The Statutory Auditors and Third Country Auditors (Amendment)(EU) Regulations 2019

This also includes statutory instruments, and other regulations etc made under an act and legal instruments by the Secretary of State, using powers delegated under an act.

Other relevant legislation would, for example, include laws regulating banks, insurance companies, other financial service entities and so on.

Registered auditors are reminded that in certain circumstances company law requires them to notify the registering Institute or the Competent Authority if they cease to hold an audit appointment.

If a registered auditor ceases, for any reason, to act as auditor to a *public interest entity* they are required to inform the Competent Authority of the reasons for the cessation at the same time that it sends its cessation notice to the entity. This requirement extends to retained audits that are not PIEs under the rules of the Competent Authority.

For appointments that are not in respect of a *public interest entity*, notification is only required if the audit appointment ceases before the normal time for the auditor's term of office to end, as set out in law. The notification is to the registering Institute of the reasons for the cessation at the same time that it sends its cessation notice to the entity.

No notification is required if there are no matters connected with the cessation that need to be brought to the attention of members or creditor of the company or the reason for ceasing to hold office is an 'exempt' reason (for example the registered auditor has resigned because it has ceased to be a registered auditor). If a notification is required, this must be made at the same time the registered auditor notifies the company.

In certain circumstances the company also has to make a similar statement (to the Institute or the Competent Authority) and it would be useful if the registered auditor reminded the company of this.

The above notifications are in addition to any other notifications that are required to be made to the client and registering bodies such as Companies House.

**3.09 When a Registered Auditor (the 'predecessor') ceases to hold an audit appointment and another Registered Auditor (the 'successor') is appointed the predecessor must, if requested in writing by the successor, allow the successor access to all relevant information held by the predecessor in respect of its audit work. If relevant information is to be sought by the successor, it should be sought and provided in accordance with the following guidance. Any information obtained by the successor is for the purposes of its audit and must not be disclosed to a third party unless the successor is required to do so by a legal or professional obligation.**

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#### Origin and purpose

This audit regulation ("the Regulation") gives effect to the obligation in the 2006 Act that RSBs must have adequate rules and practices designed to ensure that a person ceasing to hold office as a statutory auditor makes available to his successor in that office all relevant information which he holds in relation to that office. The requirement derives from Article 23(3) of the EU Audit Directive. The then Department for Business, Enterprise and Regulatory Reform (now the Department for Business, Energy and Industrial Strategy) stated that the Regulation should provide "the most appropriate minimum requirement in relation to access to relevant information".

The purpose of the Regulation is to assist in maintaining the effectiveness (including cost effectiveness) and the efficiency of the audit process in the context of a change of auditor. The Regulation is intended to reduce the (actual or perceived) risk of changing auditors.

It takes time for a successor to develop a comprehensive understanding of the business of an audit client. A wide variety of different arrangements have existed to facilitate an effective handover between successor and predecessor, including exchanges of letters, discussion, exchange of audit committee papers and minutes, and shadowing of the predecessor at key meetings such as the final audit committee meeting. Before the Regulation it was however unusual for a predecessor to share audit working papers. This was due mainly to liability concerns.

Liability concerns formerly arose in the context of access to audit working papers being allowed voluntarily, but any access will now be compulsory. Further it is no part of the purpose or object of the Regulation to involve one auditor in liability for another's audit. Also the Department for Business, Innovation & Skills confirmed its view that Article 23(3) and the 2006 Act provision implementing it do not alter the existing liability of each auditor in relation to its respective audit.

Provision is already made separately by statute for the making of representations, for the attendance and hearing at meetings, and for the making of a statement of circumstances, where the predecessor has been removed as auditor, where there has been a failure to re-appoint the predecessor as auditor, where the predecessor has resigned as auditor, and where the predecessor has ceased to hold office. The Regulation and guidance do not seek to duplicate that framework, and are framed in recognition of the fact that that framework already exists.

This guidance is separate from and additional to the Institute'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.

#### "Audit"

It should be borne in mind that the 2006 Act sets out a number of functions that are required of the registered auditor in specific circumstances. These are within the definition of an audit (and so fall within the definitions of audit report and audit work). The situations in which they arise currently include the following:

- section 92 a company applying to re-register as a public company;
- section 428 statement on summary financial statements issued by a quoted company;
- section 449 abbreviated accounts;
- section 714 when a private company makes a payment out of capital for the redemption or purchase of its own shares;
- section 837 when a distribution is to be made by a company and the audit report was qualified; or

- **section 838** when initial accounts are prepared for a proposed distribution by a public company.

(Where the registered auditor is appointed to an entity that is not a company similar reporting requirements may apply.)

### 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 the Regulation, and the extent of that request. This will involve judgement by the successor in each case, so as to ensure that 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 that 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 will be Institute or FRC guidance indicating the working papers expected for such an audit. For example in the case of a financial statement audit, ISAs will indicate the audit working papers to be prepared. In other cases, where there is no guidance, the predecessor will have determined the working papers to be prepared.

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.

In addition to providing access to all relevant information held about its audit work, the predecessor must provide additional information where the client is a public interest entity, namely any reports to the audit committee, any reports to competent authorities who exercise a supervisory role over the entity and the firm's own transparency reports.

### Period

Normally the period for which relevant information is requested would 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. The request would include any subsequent review conducted by the predecessor in accordance with guidance published by the FRC in relation to published interim reports.

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 judgment 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 that 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.

Because (as indicated above) it is no part of the purpose or object of the Regulation to involve one auditor in liability for another's audit, 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 registered auditors, copied to the audited entity. Guidance on suitable letters is available on each Institute's website as part of a technical release.

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.

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.

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.

Section 1210 of the 2006 Act sets out a list of appointments to which this Regulation and guidance apply. Section 1210(h) allows additional types of appointments to be added to the list. Registered auditors are not required to allow access to their working papers in respect of other appointments.

**3.10 A Registered Auditor must comply with the auditing standards and the quality control standards.**

Guidance included with auditing standards and practice notes gives assistance on how to apply the standards. Some of these also help to show how to apply the standards to the audits of smaller companies. Such audits are likely to be less complex than those of larger national and multinational organisations, so a simpler audit approach may be more suitable. But it must still be properly planned, controlled, documented and reviewed.

A registered auditor must comply with these regulations, the auditing standards and quality control standards as applied in accordance with the explanatory and other material published therewith.

**3.11 A Registered Auditor must keep all audit working papers which auditing standards require for an audit for a period of at least six years. The period starts with the end of the accounting period to which the papers relate.**

Both this regulation and regulation 3.12 are about the audit working papers of UK registered entities that fall within the definition of 'audit' in these regulations.

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.

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.

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, for example tax. 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.

**3.12 A Registered Auditor must make arrangements so that if any of its audit work is carried out by another firm, then:**

- a all the audit working papers created by that firm are returned to the Registered Auditor; or**
- b the other firm agrees to keep those papers as required by regulation 3.11 and allows the Registered Auditor unrestricted access to the papers for whatever reason.**

Registered auditors will sometimes 'sub-contract' 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.

If this happens, then, under regulation 3.12, all the audit working papers created by the other firm have to be returned to the registered auditor for retention in accordance with regulation 3.11. Alternatively, the other firm may keep the papers. In this case the registered auditor must make sure that the other firm will keep the papers for as long as the auditor would. Also the registered 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 registered auditor, any decision to destroy the papers should be made by the registered auditor and not the other firm.

If a registered auditor considers that, despite any agreements with the other firm, gaining access to the papers may prove difficult, the registered auditor should consider changing the arrangements. If this is not possible, the registered 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 registered 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 registered auditor should use the principles in ISA 230 (audit documentation) and ISA 500 (audit evidence) when considering such matters.

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.

This regulation does not require the auditor of a holding company to seek and maintain access to the audit working papers of the auditor of a subsidiary company (but see regulation 3.13). In the United Kingdom the respective responsibilities of the holding company auditor and subsidiary company auditor are governed by the Act and auditing standards.

**3.13 In the case of a group audit where part of the group is audited by a firm from a third country, a Registered Auditor must make arrangements so that, if requested by a monitoring unit or the Competent Authority, it can obtain from that firm all the audit working papers necessary for a review of that firm's audit work.**

The arrangements referred to above are that the registered auditor either retains copies of the other firm's audit working papers or arranges that it can have unrestricted access to them on request. If, after taking all reasonable steps, a registered auditor cannot make such arrangements, it should document the steps taken to put such arrangements in place and the reasons why it could not and any evidence of those steps or reasons. A registered auditor need not make such arrangements if the relevant audit supervisory authorities in the third country have established reciprocal arrangements with the Competent Authority. To find out if there is such an agreement in place, a list is published by the Competent Authority.

**3.14 If requested by an overseas competent authority of a third country, a Registered Auditor under UK law may transfer to that body its audit working papers and the investigation reports relating to the audit provided:**

- a the papers and reports relate to the audit of a body that either:**



- 1) has listed securities in the country of the overseas competent authority; or
  - 2) forms part of a group issuing statutory consolidated accounts in the country of the overseas competent authority;
- b the overseas competent authority has requested the transfer of the *audit working papers* and investigation reports for the purposes of:
- 1) carrying out its functions in respect of quality assurance or public oversight; or
  - 2) an investigation initiated by itself or another competent authority established in the same country;
- c the overseas competent authority has given the FRC notice of its request;
- d there is an agreement between that competent authority and the FRC; and
- e the FRC has confirmed in writing that where the request is for the purposes of:
- 1) paragraph b(1) above, that it approves the transfer;
  - 2) paragraph b(2) above, that it is not prohibiting the transfer on the grounds set out in section 1253E(7) of the 2006 Act.

For the purposes of this regulation:

- an 'overseas competent authority' is a body that is designated in the law of the relevant country as having responsibility for the regulation or oversight of auditors; in most cases the body would be the equivalent of the FRC in the UK;
- 'transfer' means the physical or electronic transfer of audit working papers (or a copy) or allowing access to such papers;
- separate arrangements are being made by the FRC for recognition of these arrangements for the EEA states.

There may be occasions when an overseas competent authority in a third country requests to see a registered auditor's audit working papers and investigation reports that relate to that audit. If this is so the overseas competent authority can carry out its function of reviewing the quality of audit work it has to be 'an approved third country competent authority', as listed in section 1253D(2) of the 2006 Act, as amended. If the request relates to an investigation that the overseas competent authority is conducting in its own country, then it does not have to be approved.

If a request is received, then before complying with the request, the registered auditor must obtain written confirmation that the FRC either has approved the transfer or is not prohibiting it. The FRC can prohibit a transfer if it considers the transfer would affect the UK's national interests or there are legal proceedings related to the transfer. So if the firm is aware of any legal proceedings in the UK, even if now finished, regarding any of the persons or matters to which the request relates, the firm should inform the FRC.

If the request is granted, it will only be granted in respect of audit working papers and investigation reports relating to the audit of a body that either:

- has listed securities in the country of the competent authority; or
- is part of a group issuing statutory consolidated accounts in the country of the competent authority.

The transfer must then be in accordance with any requirements contained in the agreement between the competent authority and the FRC. The current agreements can be viewed at [frc.org.uk](http://frc.org.uk).

If the transfer is to be by way of an inspection in the UK by an approved overseas competent authority, then the FRC, in practice through its Audit Quality Review team, must participate in and must lead the inspection, unless it decides not to do so.

**3.15 If a Registered Auditor is appointed to a retained audit client (or a Registered Auditor becomes aware that an existing audit client is now 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, unless the Registration Committee has given the Registered Auditor a waiver from compliance with this regulation.**

The Audit Quality Review team of the Financial Reporting Council is responsible for the review of audits of Public Interest Entities, retained audit clients and United Kingdom traded third country companies (see the definition of an audit). The Registration Committee must be informed if a registered auditor gains such an audit client or an existing audit client becomes a retained audit client. Registered auditors may also find it useful to inform the Registration Committee if a client ceases to be a retained 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.

Where the Audit Quality Review team undertakes a full scope inspection visit to a registered auditor which includes the review of 'firm-wide procedures', the 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 retained audit client is acquired (or an existing audit client becomes a retained audit client). However, such firms may still need to notify the FRC (not the Registration Committee) when they cease to act for retained audit clients which are public interest entities as this is a legal requirement.

## **Audit Report**

- 3.16 An audit report in respect of the audit of UK entities must:**
- a state the name of the firm as it appears in the Register;**
  - b include the words 'Statutory Auditor' or 'Statutory Auditors' after the name of the firm; and**

- c if required by law, state the name of the *responsible individual* who was in charge of the *audit*, be signed by this person in his own name and include the words 'Senior Statutory Auditor' after the name of the *responsible individual*.**

An audit report has to include the description 'Statutory Auditor' but there is nothing to prevent a firm adding any other appropriate description, such as 'chartered accountants'.

In certain cases the law requires that the responsible individual in charge of the audit (known as the senior statutory auditor) should sign the audit report. The individual's name must also be given. This is only required if the audit report is a report on the annual accounts for a financial year of a 'section 1210' entity (see below), a special report on abbreviated accounts or when accounts are voluntarily revised by the directors. The individual's name need not be given in the case of other reports required under the Act (for example a report under section 714 - redemption of shares out of capital) or reports on other entities included in the definition of an audit.

If more than one firm has been appointed as auditor then regulation 3.16 applies to each of them.

The FRC has published guidance (in ISA 700) on how firms should decide which responsible individual is the senior statutory auditor in relation to a particular audit.

The Act allows, where there is a serious risk of violence or intimidation to the registered auditor or responsible individual, for their names not to be given in published copies of the audit report or the copy filed at Companies House etc. If these provisions, which only apply to the 'section 1210' entities listed below, are to be invoked, it may be advisable for the entity and the firm to seek legal advice.

Other legislation that is not included in the definition of audit, or the constitution of an entity, may call for a report from an auditor. A firm may choose to sign these reports as a statutory auditor. For example, a client may require a report about it to be given to a trade association. That trade association may require the report to be given and signed by a statutory auditor. There is nothing to prevent a firm doing this and the work would not come under these regulations. However, if the Institute 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 registered auditor or conducting in accordance with auditing standards. Regulation 6.07 gives the Registration Committee the power to enquire into other work undertaken by the firm.

There is nothing to stop firms adding the name of the responsible individual 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.

### **Maintaining competence**

**3.17 A Registered Auditor must make arrangements so that all principals and employees doing audit work are, and continue to be, competent to carry out the audits for which they are responsible or employed.**

Responsible individuals, and employees who are members of an Institute, should ensure they follow the guidance on continuing professional development issued by both their institute and that of the registered auditor for whom they are performing the work.

The ICAEW has issued guidance on how individuals may maintain their competence. This is in 'regulations, standards and guidance' on the ICAEW's website at [icaew.com/cpd](http://icaew.com/cpd). ICAS has issued 'Guidelines on continuing professional development' to its members and the ICAI has issued Continuing Professional Development Regulations.

Audit affiliates who are also responsible individuals should follow the guidance of the registering Institute as well as that of their own institute, where it differs.

Registered auditors are reminded of the professional competence requirements for responsible individuals as set out in International Education Standard 8 "Professional competence for engagement partners responsible for audits of financial statements".

**3.17A A responsible individual must take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values, including, in particular, in relation to auditing, at a sufficiently high level.**

**3.18 A Registered Auditor must maintain an appropriate level of competence in the conduct of audits.**

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.

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.

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.

**3.19 A Registered Auditor must make sure all principals and employees involved in audit work are aware of and comply with these regulations, the Act, any relevant rules and regulations issued under the Act and any procedures established by the firm.**

It is important that those involved in auditing should understand the:

- requirements imposed on the firm by statute and regulation;
- legal and other requirements relating to financial statements;
- procedures the firm depends on to ensure it does audit work competently; and
- auditing and ethical standards.

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 audits of historical financial information', and the checks performed as part of the annual compliance review, can then reveal successful communication - or the lack of it.

### **Monitoring**

**3.20 A Registered Auditor must monitor, at least once a year, how effectively it is complying with these regulations and take action to deal with any issues found and communicate any changes in procedures to principals and employees on a prompt basis.**

Since these regulations require registered auditors to comply with the 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 the quality control standards. 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 that auditing standards 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 responsible individual's work, little may be gained from doing more. A representative sample of two or three audits for each responsible individual should be enough.

One approach to the question of frequency is simply to decide that the work of each responsible individual 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 responsible individual is reviewed more frequently.

Sole practitioners, firms with only one responsible individual 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 responsible individuals 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 responsible individual 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 responsible individual, is very experienced in current auditing requirements. Assuming that 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, 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 responsible individuals is reviewed. However, if the work of all responsible individuals 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 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 responsible individuals 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. While some firms may find it more practical and cost-effective to use the services provided by ICAI or ICAS, third parties may also be used such as another registered auditor or some other organisation. In choosing a reviewer, it is important that 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 registered 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

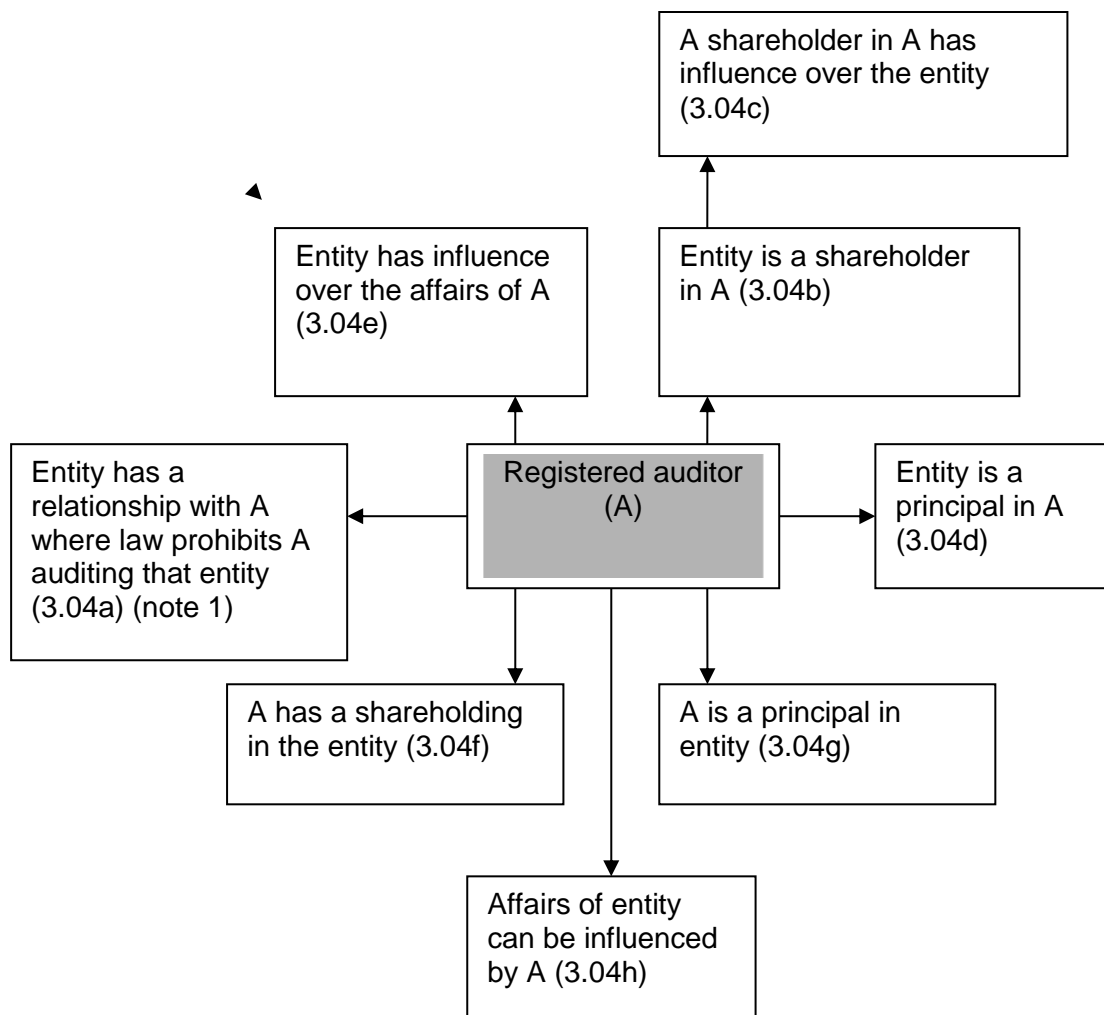
There is further guidance in part 2, chapter 2 on how registered auditors can monitor their own compliance with the audit regulations.

**3.21 Each *Registered Auditor* (other than a sole practice) must appoint an *audit compliance principal*. A sole practitioner will be the *audit compliance principal*.**

## Schedule 1

### Independence

This diagram shows the situations which would prevent a registered auditor acting for a particular entity. The diagram deals with the situations set out in regulation 3.04.



→ Shows the relationship that prevents the registered auditor auditing an entity.

(Note 1)

The law in the UK prevents a registered auditor acting as auditor to an entity if the registered auditor is:

- an officer or employee of that entity;
- a partner or employee of an officer or employee of that entity;
- a partnership in which an officer or employee of the entity is also a partner;
- an officer or employee of an associated undertaking of that entity;
- a partner or employee of an officer or employee of an associated undertaking of that entity; or
- a partnership in which an officer or employee of an associated undertaking of that entity is also a partner.



## Chapter 4

### Appropriate qualifications and responsible individuals

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

The first is the 'appropriate qualification', commonly known as the audit qualification. This is a UK 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 an 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 audit 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 'responsible individual'. These are the individuals who are responsible for carrying out audit work on behalf of a registered 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 registered auditor.

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 chapter.

#### 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 audit work. Under these regulations they need to be designated as a responsible individual.

An appropriate qualification is defined in Chapter 1 of the Regulations. It can be gained by holding:

- a recognised audit qualification awarded by a RQB;
- an approved overseas qualification and, where required, successfully completing an aptitude test; or
- up until 31 December 2020 an EEA audit qualification and, where required, successfully completing an aptitude test.

Under the Act different audit qualifications and overseas qualifications are recognised. The three Institutes and ACCA are RQBs under the Act and thus the appropriate qualification they award is recognised in the UK.

Designations made up to 31 December 2020 based on EEA qualifications will continue to be recognised on this basis after 1 January 2021. This includes those where the application was made before 31 December 2020 but was still undergoing approval processes. Applications by EEA individuals submitted after 31 December 2020 will be treated on the same basis as other overseas qualifications.

While individuals from an EEA member state may hold an equivalent 'appropriate qualification' from that country up until 31 December 2020, 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 then holds an appropriate qualification for the purposes of these regulations. An approved EEA auditor who was approved or in the process of seeking approval up to 31 December 2020 is considered to hold an

appropriate qualification for the purposes of these regulations, subject to successfully completing an aptitude test where this is required.

People who held an appropriate qualification under previous legislation 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 United Kingdom (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);
- from 1 January 2021 EEA qualified individuals who were approved or in the process of being approved under EEA legislation up to 31 December 2020, (under The Statutory Auditors and Third Country Auditors (amendment)(EU Exit) Regulations 2019 SI177), and
- by gaining a recognised audit qualification awarded by a RQB(e.g. from the Institutes).

If an individual is not sure about an appropriate qualification, they can obtain advice from the registering Institute (contact details are in the introduction to the regulations).

For those who want to be registered in the United Kingdom, that qualification must be recognised under the 2006 Act.. The act recognises the qualifications awarded by the Institutes.

### **Responsible individual**

Responsible individuals are those individuals who are responsible for the audit work in a registered auditor.

Under company law, responsible individuals are statutory auditors in their own right. Statutory auditors can only accept appointment as auditors in accordance with the rules of a RSB/, such as the Institutes. The Institutes, as supervisory bodies, have responsibilities to monitor the work of responsible individuals and auditors registered with it and that auditors are complying with legal requirements and the requirements of these Regulations. Thus an individual, even if a responsible individual in accordance with this chapter, cannot accept audit appointments unless the firm (which may be a sole practitioner) in which the individual works is also a registered auditor in accordance with chapter 2.

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

**4.01 Subject to regulation 4.02 and regulation 4.05 the audit compliance principal may designate as a responsible individual any of the Registered Auditor's principals or employees who:**

- a has an appropriate qualification;**
- b is competent to conduct audit work; and**

- c** is allowed to sign *audit reports* in their name on behalf of the *firm*.

The Institutes and the ACCA are RQBs for the purposes of UK legislation. So the appropriate qualification they award is recognised in the UK and the holder of these qualifications can be appointed as a responsible individual for the UK.

For EEA qualifications and those holding audit qualifications from outside the EEA the position is different. The UK have approved certain overseas qualifications and aptitude tests for third country qualifications. . You are advised to consult the registering Institute if clarification is required.

**4.02 Before a *principal* or *employee* can be designated as a *responsible individual*, the individual must:**

- a** be a member of an *Institute* and hold a *practising certificate*;
- b** be a member of the Association of Chartered Certified Accountants and hold its equivalent of a *practising certificate*; or
- c** satisfy the *Registration Committee* of similar experience of *audit work* as would be required of a member of the *registering Institute* and have been granted *audit affiliate* status under chapter 5 of these *regulations*.

The FRC as the Competent Authority in the UK sets the eligibility criteria which the RSBs are required to follow in exercising the registration function. Regulations 4.01 and 4.02 incorporate the requirements of these eligibility criteria. If the eligibility criteria change these regulations will be amended accordingly.

**4.03 Consultants and sub-contractors cannot be designated as *responsible individuals*.**

**4.04 Only *responsible individuals* can be responsible for an *audit* and sign an *audit report*.**

Firms which designate employees as responsible individuals 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 an audit affiliate of the registering Institute.

**4.05 Any designation in accordance with *regulation 4.01* shall not be effective until application has been made to the *Registration Committee* in a form specified by it and the application has been approved and the *Registration Committee* may approve the application with conditions or restrictions. Such application will require a declaration made by the individual that the individual:**

- a** agrees to be bound by these *regulations*; and
- b** agrees to be bound by the procedures, rules and guidance, as may be issued from time to time by the *Competent Authority* in the exercise of its statutory functions.
- c** agrees to take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and

values, including in particular in relation to auditing, at a sufficiently high level

Each registering Institute has its own application form which firms should request and complete. A Registration Committee will need to be satisfied that the individual has had recent and sufficient experience of audit work before approving the application.

**4.06** A *responsible individual* may not accept appointment in a key management position in a *public interest entity* or be concerned in the management of the entity if, at any time during the two years preceding the date of the proposed appointment, the *responsible individual* acted in the capacity of *responsible individual* for that public interest entity, or for a material subsidiary if the public interest entity is a group. In the case of an entity which is not a public interest entity, a period of one year must have elapsed.

For the purposes of this regulation a key management position is a director (including a shadow director) or other officer.

The above regulation is to prevent a responsible individual joining such an audit client until a two year period has elapsed since the individual last undertook any audit work in relation to the client. This obligation does not end if the individual ceases his relationship with the Institute. If an individual is in doubt about the application of this regulation to his specific circumstance, he should contact his registering Institute. A firm may find it useful to remind any responsible individual that leaves the firm of this regulation.

**4.07** The disciplinary arrangements of the *registering Institute* and the procedures of the *Competent Authority* will apply to breaches of these *regulations* by a *responsible individual* in the same way as they apply to breaches by a member.

#### **Cessation of responsible individual status**

The status of responsible individual is linked to the registered auditor and cannot be transferred to another firm. It can cease as the following regulation sets out.

**4.08** *Responsible individual* status will cease if:

- a the *firm* in which the individual is a *responsible individual* ceases to be a *Registered Auditor*;
- b the individual ceases to be a *principal* or *employee* in the *Registered Auditor* to which the grant of *responsible individual* status related;
- c an event occurs which under the *Royal Charters*, the *Rules*, *By-laws* or other regulations of the appropriate *Institute* the individual would cease to be a member or an *audit affiliate*;
- d the *audit compliance principal* notifies the registering *Institute* that the individual is no longer a *responsible individual*;
- e the *Registration Committee* withdraws *responsible individual* status; or

**f. The *Competent Authority* issues a decision withdrawing *responsible individual* status.**

Firms are reminded of the requirement to inform the registering Institute of any changes to the responsible individuals of the firm.

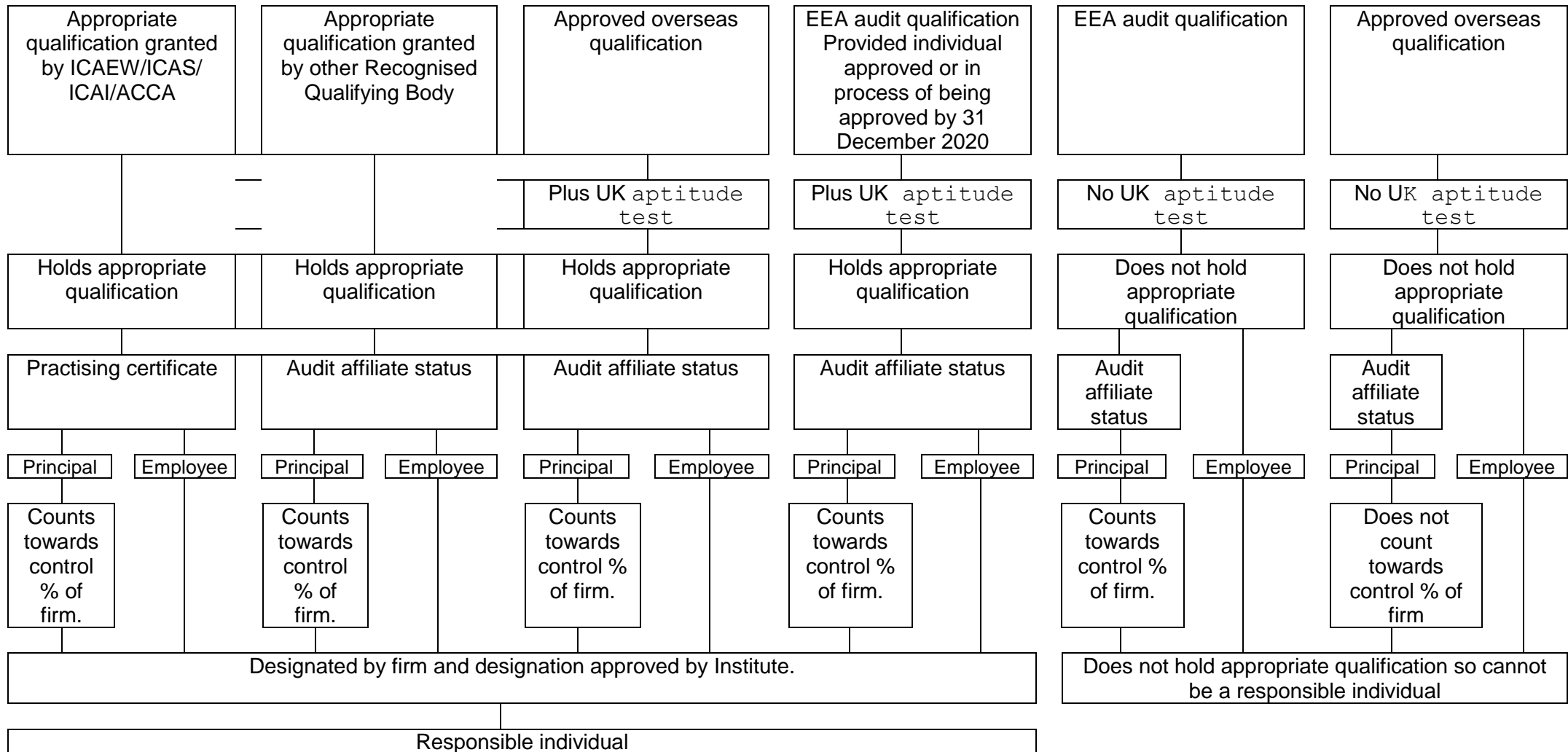
Under company law, responsible individuals are statutory auditors in their own right. However, statutory auditors can only accept an audit appointment in accordance with the rules of a RSB. The Institutes are such bodies. Thus if a responsible individual leaves a registered auditor with the intention of undertaking audit work as a sole practitioner, the individual must apply for registration as set out in Chapter 2 of these Regulations. Until such an application is approved, the individual cannot accept audit appointments as the individual will not be a registered auditor under these Regulations. If a responsible individual leaves a registered auditor to join another registered auditor, then the individual needs to be designated as a responsible individual in the new firm before being responsible for audit work.

**4.09 If an individual is no longer a *responsible individual* disciplinary action (including the imposition of a regulatory penalty) or action by the *Competent Authority* may still be taken for any failure to keep confidential any information received in the course of audit work and for any failure to comply with regulation 4.06.**



## Schedule 1

### Relationship between appropriate (audit) qualification and responsible individual status - UK



## Chapter 5

### Audit affiliates

The Institute is able to register firms in which one or more principals are not members of the Institutes or the Association of Chartered Certified Accountants if these people or corporate bodies are granted audit affiliate status by the registering Institute. That status does not confer membership of the Institute or entitle the individual or corporate body to use the title 'chartered accountant'. However, it does mean that an audit affiliate is bound by the same rules and regulations as govern a full member of the Institute.

An individual who is to be a responsible individual must also either be a member of an Institute or the Association of Chartered Certified Accountants. If this is not the case, then audit affiliate status is needed under this chapter.

Different requirements apply for affiliates for investment business purposes. Affiliate status in one regulated area does not automatically give such status in another.

#### General

**5.01** *An audit affiliate can only be responsible for an audit and sign an audit report if designated as a responsible individual under regulation 4.01.*

An audit affiliate can only be responsible for audit work if they are also a responsible individual, which means holding an appropriate qualification. Chapter 4 gives details.

#### Granting of audit affiliate status

**5.02** *Audit affiliate status does not give the audit affiliate any rights other than those contained in these regulations. An audit affiliate must not make any public statement that they have any such rights.*

**5.03** *Persons applying for audit affiliate status must do so in the manner that the Registration Committee decides.*

Individuals should ask the appropriate Institute for an application form.

**5.04** *The Registration Committee may grant audit affiliate status if the committee is satisfied that the applicant:*

- a** *is a fit and proper person to be granted audit affiliate status;*
- b** *has agreed to comply with these regulations;*
- c** *has agreed to observe and uphold the Code of Ethics of the Institute; and*
- d** *has agreed to provide the registering Institute with all the information it requires.*

Regulation 5.04 sets out the matters the Committee will consider when it receives an application for audit affiliate status.

Regulation 5.04d means that the Registration Committee has the same rights, for example to call for information about an audit affiliate, as it does over a firm. In turn, an audit



affiliate has the same rights of review and appeal against the decisions of the Registration Committee as firms have.

**5.05 The *Registration Committee* may:**

- a grant the application;**
- b reject the application;**
- c grant the application subject to restrictions or conditions; or**
- d postpone consideration of the application.**

If 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 chapter 8).

Under regulation 5.05d, the 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.

**Withdrawal of audit affiliate status**

**5.06 The *Registration Committee* may withdraw a person's *audit affiliate* status if, in the opinion of the committee, the *audit affiliate*:**

- a is no longer a fit and proper person;**
- b has failed to pay on time any fines or costs ordered by the *Registration Committee*, *Review Committee*, *Disciplinary Committee*, *Appeal Committee* or by the *Competent Authority*;**
- c becomes subject to a decision by the *Disciplinary Committee* that they should no longer be an *audit affiliate*;**
- d fails to pay the annual fee within 30 days of the date of a notice to renew *audit affiliate* status; or**
- e fails or ceases to comply with any of these *regulations* and, in the circumstances, withdrawal is justified.**

If 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 chapter 8).

**Cessation of audit affiliate status**

**5.07 *Audit affiliate* status will end if:**

- a the *firm* in which the *audit affiliate* is a *principal* ceases to be a *Registered Auditor*, except where *regulation* 5.08 applies;**
- b the *audit affiliate* ceases to be a *principal* in the *Registered Auditor* to which the grant of *audit affiliate* status related, except where *regulation* 5.08 applies;**
- c the *audit affiliate* is an individual and an event occurs which under the *Royal Charters*, the *Rules*, *Bye-laws* or**

other *regulations* of the appropriate *Institute* would cause the membership of a member to cease; or

- d the *audit affiliate* is a *body corporate* which:
- 1) has been the subject of an effective resolution passed by the shareholders (or in the case of a limited liability partnership, by its members) for it to be wound up or has had a winding-up order made against it on grounds of insolvency; or
  - 2) has had an administration order made against it on grounds of insolvency; or
  - 3) has had a receiver appointed by a creditor or by a court on the application of a creditor.

Regulation 5.07 describes a number of situations where audit affiliate status is automatically lost.

If an affiliate enters into a voluntary insolvency arrangement, the affiliate must notify the Registration Committee in accordance with regulation 5.09.

**5.08** *Audit affiliate* status will not end under *regulation 5.07a* or *5.07b* if:

- a the *firm* in which the *audit affiliate* is a *principal* merges with or is acquired by another *Registered Auditor* registered by the same *registering Institute*; or
- b the *audit affiliate* leaves the *Registered Auditor* in which he is a *principal* and immediately becomes a *principal* in another *Registered Auditor* registered by the same *registering Institute*.

This *regulation* will only apply if the *registering Institute* is notified in writing within ten *business days* of the change occurring.

If an audit affiliate is a principal in a registered auditor and if that relationship ceases, so does the audit affiliate status. In the circumstances given in regulation 5.08, audit affiliates may keep their audit affiliate status. However, this is only if the new firm is registered with the same registering Institute that granted the original audit affiliate status, and the Institute has been notified of the changes. If the audit affiliate will not be joining the new firm within ten business days, they need to get advice from the registering Institute as soon as, or before, they leave the old firm.

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.

### **Changes in circumstances**

**5.09** An *audit affiliate* or the *audit compliance principal* must notify the *registering Institute* in writing within ten *business days* of any changes that are relevant to the matters considered by the *Registration Committee* under *regulation 5.04*, including details of any voluntary insolvency arrangement that the audit affiliate has entered into.

### **Review of regulatory decisions**

- 5.10 An *audit affiliate* may apply for a review of a decision made under *regulation 5.05* or *5.06* using the same procedures as a *firm* in chapter 8.

#### Implementation of decisions

- 5.11 A decision made under *regulation 5.05* will come into effect as soon as notice of it is served on the *audit affiliate*. A decision made under *regulation 5.06* will come into effect ten business days after notice of it is served on the *audit affiliate*, except that:
- a if the *audit affiliate* has applied for a review under *regulation 8.05*, or a hearing under *regulation 8.15*, the decision will not take effect until a decision under *regulation 8.06* or *8.16* has been put into effect; or
  - b if the *audit affiliate* appealed under *regulation 8.08* or *8.19*, the decision will not take effect until an *Appeal Committee* decision under *regulation 8.09* or *8.20* has been put into effect.

If an *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.

#### Fees

- 5.12 An *audit affiliate* must pay an annual fee at the time and at the rate set by the registering Institute.
- 5.13 The first annual fee is due when an application is made for *audit affiliate* status. An application fee is also due with this first annual fee.

If an *audit affiliate's* application is unsuccessful, the first annual fee will be refunded.

#### Disciplinary arrangements

- 5.14 The disciplinary arrangements of the *registering Institute* will apply to breaches of these *regulations* by an *audit affiliate* in the same way as they apply to breaches by a member.
- 5.15 An *audit affiliate* will be liable to disciplinary action under these *regulations* for any failure to observe and uphold the fundamental principles set out in the Code of Ethics issued by *Council*.
- 5.16 An *audit affiliate* will remain liable to disciplinary action under these *regulations* for any acts or omissions during the period in which *audit affiliate* status was held, even if no longer an *audit affiliate*.

## Chapter 6

### The Committees

This chapter describes the various committees involved in the regulatory process and their powers. Some, but not all, of the powers may be delegated by the 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.

The Registration Committee is responsible for carrying out regulatory tasks delegated to the registering Institute by the Competent Authority.. The Competent Authority has direct responsibility for carrying out any tasks that it has retained or that are delegated to it by law, using its own powers and procedures. Some delegated tasks may, in specified circumstances, revert to the Competent Authority.

The Competent Authority may take any of the actions set out below as if it was the RSB. As an alternative, the Competent Authority may delegate to another RSB who can apply these regulations as if it was the original RSB. In both cases the Competent Authority or the other RSB may vary the regulations that it applies.

A firm generally has the right to seek a review of a decision. Details are in chapter 8. This does not apply to a decision made by the Competent Authority related to matters it has retained or which have been delegated to it. Any appeal against such a decision must be made using the procedures of the Competent Authority.

#### Registration Committee

**6.01 In the case of ICAEW the *Registration Committee* must:**

- a** comprise at least eight people;
- b** have non-accountants forming at least half of its membership; and
- c** have a quorum of four members of which two must be accountants and two non-accountants.

**In the case of ICAS and ICAI the *Registration Committee* must:**

- a** comprise at least eight people;
- b** include at least two members who are not accountants; and
- c** have a quorum of three members.

**6.02 The *Registration Committee* is responsible for:**

- a** granting registration;
- b** granting registration subject to restrictions or conditions;
- c** rejecting applications for registration;
- d** withdrawing registration;

- e suspending registration;
- f imposing restrictions or conditions it considers appropriate on how a *Registered Auditor* carries out audit work;
- g proposing a *regulatory penalty* it considers appropriate to a *Registered Auditor*;
- h granting or refusing dispensation from the requirements of *regulation 2.02* or *regulation 2.03*;
- i reviewing the returns and reports made under these *regulations*, and investigating failure to make returns or reports;
- j making appropriate enquiries into the eligibility of applicants for: registration; *responsible individual* status; or *audit affiliate* status (by writing, visiting the office or offices of a *firm*, or in any other way);
- k making appropriate enquiries to confirm that a *Registered Auditor*, *responsible individual* or an *audit affiliate* is complying with these *regulations* (by writing, visiting a *firm's* office or offices, using a periodic return, or in any other way);
- l publishing its orders or decisions as required by SATCAR if it considers this appropriate;
- m compiling and maintaining the *Register*;
- n granting applications for *responsible individual* status, with or without restrictions or conditions or rejecting such applications;
- o withdrawing *responsible individual* status; and
- p making a declaration that an *audit report* does not satisfy the reporting requirements of the Act and where appropriate a declaration as to the proportion of the audit fee that is not payable as a result.

Regulation 6.02 sets out the powers and functions of the Committee, which include the powers under regulations 6.02j and 6.02k to make monitoring visits to firms.

Each registering Institute deals with the procedures for regulatory penalties differently, as shown in chapter 7 for the ICAS and ICAI and chapter 9 for the ICAEW.

If the Committee's decision is to withdraw or suspend registration, that a person should cease a particular action, that an audit report does not satisfy the reporting requirements of the Act or proposes a regulatory penalty that the firm accepts then the Committee will publish details of the matter. The details to be published will include the identity of the person unless:

- the person is an individual and the Committee considers that publication of personal data would be disproportionate;
- publication would jeopardise:
  - the stability of financial markets;

- an ongoing criminal investigation; or
- publication would cause disproportionate damage to any institution or individual involved.

**6.03** Except where *regulation 6.04* applies, the *Registration Committee* may delegate its duties to sub-committees, the *registering Institute's* staff, a *monitoring unit*, or another duly appointed agent.

The committee may delegate many of its powers except in the situations set out in *regulation 6.04*. The committee may not delegate to an agent without the prior approval of the Competent Authority.

**6.04** If the matters to be considered by the *Registration Committee* include:

- rejecting applications for registration under *regulation 2.05b*;
- granting applications for registration subject to restrictions under *regulation 2.05c*;
- rejecting applications for *responsible individual* status under *regulation 4.05*;
- granting applications for *responsible individual* status subject to restrictions under *regulation 4.05*;
- withdrawing *responsible individual* status under *regulation 4.08e*;
- rejecting applications for *audit affiliate* status under *regulation 5.05b*;
- granting applications for *audit affiliate* status subject to restrictions under *regulation 5.05c*;
- withdrawing *audit affiliate* status under *regulation 5.06a* or *5.06e*;
- imposing restrictions on registration under *regulation 7.01*;
- withdrawing registration under *regulations 7.03a, 7.03g, 7.03h, 7.03i* or *7.03j*;
- suspending a *firm's* registration under *regulation 7.04*; or
- proposing a *regulatory penalty* under *regulation 7.11A* or *9.02*;

then:

- a the committee cannot delegate the decision;
- b at least one half of the committee members present must be accountants; and
- c at least one member of the committee present must not be an

accountant.

*Regulation 6.03* allows the committee to delegate some of its duties to the registering Institute's staff. Duties that may be delegated include withdrawing registration under regulations:

- 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 costs; and

However, *regulation 6.04* reserves certain specified decisions to the committee. These include withdrawing registration for other reasons and placing restrictions on a firm's registration.

The power to withdraw audit affiliate status under regulations 5.06b to 5.06d may also be delegated.

**6.05** When the *Registration Committee* has to decide if a *Registered Auditor* has complied with a *regulation*, *auditing standard*, or a *quality control standard* it must consider any relevant guidance in the regulations, standards, *practice notes* and any guidance issued by *Council* or by the *Competent Authority*.

**6.06** In carrying out its responsibilities under *regulation 6.02*, the *Registration Committee*, any sub-committee, the *registering Institute's* staff, or a *monitoring unit* may, to the extent necessary for the review of a *firm's* audit work or how it is complying or intends to comply with these regulations, require a *Registered Auditor* or an applicant for registration to provide any information, held in whatever form (including electronic), about the *firm* or its clients and to allow access to the *firm's* systems and personnel.

Regulation 6.06 gives the 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.

**6.07** The *Registration Committee* may, for the purposes of these regulations, treat as audit work any work carried out by a *Registered Auditor* if such status is a requirement for that work.

This regulation allows the committee to look at other work where the firm has signed a report as a statutory or registered auditor. This is particularly so where a firm has little or no regulated audit work but is signing other reports as a statutory or registered auditor. The 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 as a registered auditor the committee may wish to review this or similar work for the same reason.

**6.08** All information obtained under *regulation 6.06* will be confidential but may be disclosed by the *registering Institute*, the *Competent Authority* or a *monitoring unit* (directly or indirectly) to any person or body undertaking regulatory, disciplinary or law enforcement responsibilities for the purpose of assisting that person or body to undertake those responsibilities or as otherwise required or allowed by law.

All information that a registering Institute or a monitoring unit receives will remain confidential except in the above circumstances.

**6.09** A *firm* which is no longer a *Registered Auditor* will continue to be subject to regulations 6.02j, 6.02k and 6.06 if the enquiries or information relate to any period in which the *firm* was registered.

**6.10** In carrying out its responsibilities under *regulation 6.02*, the *Registration Committee* may consider any disciplinary findings, orders, ongoing investigations, any order of the *Competent Authority*, or any other information concerning or affecting the fit and proper status of any *responsible individual*, *audit affiliate* or applicant for *audit affiliate* status, the *firm* or its



*principals*. In particular the *Registration Committee* may take into account the following:

- a any matter relating to any individual who is or will be employed by or associated with the *firm* in connection with *audit work*;
- b in the case of a *firm* that is a partnership, any matter relating to any:
  - 1) partner;
  - 2) *director* or *controller* of any of the partners;
  - 3) *body corporate* in the same group as of any of the partners; or
  - 4) any *controller* of any such body;
- c if a *principal* in the *firm* is a *body corporate*, any matter relating to any:
  - 1) *principal* or *controller* of that *body corporate*;
  - 2) *body corporate* in the same group as the *body corporate*; or
  - 3) *principal* or *controller* of any *body corporate* in that group;
- d in the case of a *firm* that is a *body corporate*, any matter relating to any:
  - 1) *principal* or *controller* of that *firm*;
  - 2) person having any interest in shares of the *firm*;
  - 3) *body corporate* in the same group as the *firm*; or
  - 4) *directors* or *controllers* of any *body corporate* in that group.

Regulation 6.10 allows the *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*.

Subparagraph (a) includes employees and associates of the *firm*. For partnerships, subparagraph (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. Subparagraph (c) deals with situations where a *principal* (i.e. a partner, member or director) is a *body corporate* (i.e. a company or a limited liability partnership).

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, subparagraph (d) deals with a *firm* that is a *body corporate* (i.e. a company or a limited liability partnership). Thus included are directors/members/shareholders of the *firm*, and any other *body corporate* that is in the same group as the *firm* and any controller of any of those other bodies.

## **Notifications**

**6.11** The *Registration Committee* must notify the *Investigation Committee* about any fact or matter which:

- a suggests that a *Registered Auditor*, member or *audit affiliate* may be liable to disciplinary action under these *regulations*, the *Bye-laws* or *Rules*, or any other

*regulations or bye-laws of the registering Institute;  
and*

**b** in the opinion of the *Registration Committee* needs to be investigated.

**6.12** The *Investigation Committee* must inform the *Registration Committee* about any fact or matter which appears to it to be relevant to the powers and duties of the *Registration Committee* under these regulations.

**6.12A** The *Registration Committee* and the *Investigation Committee* must notify the *Competent Authority* of any material fact or matter which appears relevant to the responsibilities of the *Competent Authority*.

Under regulations 6.11 and 6.12, information may be exchanged between the registering Institute's departments responsible for regulation and discipline. Also, the *Competent Authority* has to be informed of any material fact or matter which appears relevant to its responsibilities.

### **Review Committee and Panel**

**6.13** Certain matters decided by the *Registration Committee* may be considered afresh by the *Review Committee* (as described in regulation 8.06) or *Panel* (as described in regulation 8.15). It may then carry out any of the responsibilities of the *Registration Committee* under regulation 6.02 and may make any order that the *Registration Committee* may make. In carrying out these duties, regulation 6.06 applies to the *Review Committee* or *Panel* as it applies to the *Registration Committee*.

Firms registered by the ICAEW and the ICAI 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.

Firms registered by the ICAS may apply for a hearing under regulation 8.15.

### **Appeal Committee**

**6.14** Appeals against decisions of the *Review Committee* or *Panel* will be decided by the *Appeal Committee*.

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 ten days of the decision being given to the firm.

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 chapter 8.

For firms registered by the ICAEW and the ICAI, detailed procedures are given in regulations 8.08 to 8.10. Regulations 8.19 to 8.21 give the procedures for firms registered by the ICAS.

The *Appeal Committee's* procedures and powers are given in the Bye-laws or Rules.

### **Procedures of the committees**

- 6.15 When considering any matter before it, the *Registration Committee*, the *Review Committee* or *Panel* or the *Appeal Committee* shall, for the purposes of these regulations, accept any previous disciplinary finding, any decision by the *Competent Authority*, conviction, decision, sentence or judgement (including criminal and civil court decisions) as conclusive evidence of that prior matter.
- 6.16 Subject to the *Act*, the *Bye-Laws* or *Rules*, any notice issued by the *Competent Authority*, and these regulations, the *Registration Committee*, the *Review Committee* or *Panel* and the *Appeal Committee* may, in carrying out their duties under these regulations, decide on their own procedures.

This regulation allows the committees to decide on their own internal procedures.

Each Institute must arrange for complaints against the Institute in its capacity as a RSB to be investigated. The ICAEW has appointed an independent Reviewer of Complaints. The ICAS and the ICAI have panels of lay members of Institute committees to investigate complaints.

The Competent Authority may attend, as an observer, the committee meetings convened in relation to any regulatory proceedings under these regulations

## Chapter 7

### Regulatory action

This chapter explains how the Registration Committee or the Competent Authority may take regulatory action against a registered auditor, including withdrawal of registration if necessary.

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

Not all regulatory responsibilities have been delegated to the Institutes. The Competent Authority retains responsibility for the quality assurance reviews of retained audits dealing with any action, including investigations, adjudication and disciplinary measures that may be needed arising from those reviews. Where the competent authority is performing the aforementioned duties it is the procedures of the Competent Authority that are applicable and the sanctions that it can apply, rather the procedures and actions set out in this chapter. The RSBs may, in certain circumstances, also perform investigations regarding audit work in relation to the audit of a public interest entity or a retained audit. The enforcement consequences of any such investigations remain the responsibility of the Competent Authority.

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

The chapter is in two parts, the first applies to all three Institutes and the second part applies only to the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland.

#### Section 7A

**Firms registered by the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland**

#### Restrictions and conditions

**7.01** The *Registration Committee* may impose restrictions or conditions on a *Registered Auditor* if it considers that:

- a any of the circumstances mentioned in *regulation* 7.03a to 7.03f or 7.03j exist, or may exist, and the restrictions or conditions are justified;
- b the *firm* has not or may not have complied with these *regulations* in the past, and the restrictions or conditions are justified;
- c the *firm* may not comply with these *regulations* and the restrictions or conditions are justified;
- d being registered or continuing *audit work* without restrictions or conditions could adversely affect an *audit client* or any other person; or
- e it is appropriate to do so to ensure that *audit work* is undertaken, supervised and managed effectively.

**7.01A** The *Registration Committee* may make a declaration that an *audit report* does not satisfy the reporting requirements of the *Act* and where appropriate, in respect of audit reports in respect of UK entities, may make a declaration as to the proportion of the audit fee that is not payable as a result.

**7.02** The *Registration Committee* may at any time vary or end a restriction or condition made under *regulation 7.01*.

The committee may place conditions on how a registered 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 registered auditor.

The committee may place restrictions on a registered auditor such as:

- 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 responsible individual; or
- that an employee may no longer be involved in audit work.

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.

Where the registering body makes a restriction or a condition, and the firm subsequently falls under the jurisdiction of the Competent Authority as a result of undertaking an audit that is the direct responsibility of the Competent Authority, then the Competent Authority may seek to vary the restrictions in consultation with the registering body.

### **Withdrawal of registration**

**7.03** The *Registration Committee* may withdraw a *firm's* registration if:

- a it considers that the *firm* no longer meets one or more of the eligibility requirements of *regulations 2.02 or 2.03* (additional criteria for firms that are not sole practices);
- b it considers that the *firm* is not complying with the *PII regulations*;
- c the *firm* is over 30 days late submitting the required returns or reports;
- d the *firm* has not paid the registration fees due under *regulation 2.13* or a charge due under *regulation 2.15* (charge for a monitoring visit) within 60 days of the date of an invoice under *regulation 2.16*;
- e the *firm* has not paid the costs in the time set by the *Review Committee* or *Panel* under *regulation 8.07 or 8.18*;
- f the *firm* has not paid in the time set any fines or costs ordered by the *Investigation Committee*, the *Disciplinary Committee*, the *Appeal Committee*, or the *Competent Authority*;

- g it considers that the *firm* has not complied with any restriction or condition under *regulation 7.01* or any written undertaking that the *firm* has given to the *registering Institute* or the *Competent Authority*;
- h it considers that the *firm* has not complied with any other *regulation* and, in the circumstances, withdrawal is justified;
- i it considers that the continued registration of the *firm* may adversely affect an *audit client* or any other person; or
- j it considers that the *firm* has not complied with any notice issued by the *Competent Authority* and, in the circumstances, withdrawal is justified.

The 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), (i) and (j) of regulation 7.03.

The 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.

**7.03A** The *Registration Committee* must withdraw a firm's registration if the *Competent Authority* has issued a notice to that effect.

### Suspension

**7.04** The *Registration Committee* may suspend a *Registered Auditor's* registration for a period if it considers that:

- a any of the circumstances mentioned in *regulation 7.03a* to *7.03g* or *7.03j* exists or may exist;
- b the *firm* is, or may, no longer be complying with these *regulations*; or
- c the continuation of the *firm's audit* activities could adversely affect an *audit client* or any other person.

**7.04A** The *Registration Committee* must suspend a *Registered Auditor's* registration for a period if the *Competent Authority* has issued a decision to that effect; and must apply such restrictions during the period of suspension as are set out in the notice.

**7.05** Save as otherwise provided in a notice issued by the *Competent Authority* during a period of suspension a *Registered Auditor*:

- a need not resign from any appointment as auditor under the *Act*;
- b may accept re-appointment as auditor;
- c must not accept any new appointments; and
- d may only sign *audit reports* with the permission of the *Registration Committee*.

**7.06 The Registration Committee may vary or end a suspension made under regulation 7.04.**

The committee can order that a firm's registration is suspended rather than withdrawing 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.

Where the registering body makes a suspension and the firm subsequently falls under the jurisdiction of the Competent Authority (as a result of undertaking an audit for which the Competent Authority is responsible) then the Competent Authority may seek to vary the restrictions in consultation with the registering body.

**Urgent orders**

**7.07 The Registration Committee may impose restrictions or conditions or suspend a firm's registration in the terms permitted by regulation 7.01 or 7.04 by means of an urgent order if it considers that there is a need to do so.**

**7.08 Regulation 7.07 is subject to the Registration Committee allowing the firm an opportunity to make oral or written representations within ten business days of the urgent order being made. Having considered any representations the committee may:**

- a end the order; or**
- b continue the order.**

Regulation 7.07 allows the 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.

**Implementation of committee decisions and orders**

**7.09 A decision made under regulations 2.05, 2.18, 4.05, 7.04, 7.07, 8.09 or 8.20 will come into effect as soon as notice of it is served on the firm.**

The regulations quoted in regulation 7.09 relate to the following:

- 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 responsible individual 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
- regulations 8.09 and 8.20 deal with Appeal Committee decisions.

**7.10 A decision made under regulations 7.01, 7.01A, 7.03 or 4.08e will come into effect ten business days after notice of it**

is served on the *firm* or *responsible individual* or any later time that the committee specifies, except:

- a if a *firm* or *responsible individual* has applied for a review or hearing under regulation 8.05 or 8.15b, the order will be postponed until an order under regulation 8.06 or 8.15d has been put into effect; or
- b if a *firm* or *responsible individual* has appealed under regulation 8.08 or 8.19, the order will be postponed until an *Appeal Committee* order under regulation 8.09 or 8.20 has been put into effect.

Except for decisions made under regulation 7.09, decisions come into effect ten 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.

The regulations quoted in regulation 7.10 relate to the following:

- withdrawal of responsible individual status under regulation 4.08e;
- conditions or restrictions imposed under regulation 7.01;
- a declaration that an audit report does not satisfy the reporting requirements of the Act under regulation 7.01A; and withdrawal of a firm's registration under regulation 7.03.

Regulation 1.08 details how decisions and orders are served on firms.

**7.11 *Firms and Responsible Individuals*** are subject to any regulatory action that the *Competent Authority* may take in accordance with its processes and procedures.



## Section 7B

### Firms registered by the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland

#### Regulatory penalties

The 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 Registration Committee may propose a regulatory penalty. The following regulations explain this process.

**7.11A** The *Registration Committee* may propose a *regulatory penalty* to a *Registered Auditor* subject to the following:

- a the *Registered Auditor* must have agreed that the breach of these regulations has been committed;
- b the *Registration Committee* will decide the amount of the penalty and when it is to be paid. The *registering Institute* will set this out in the letter to the *Registered Auditor* proposing the penalty; and
- c if the *Registered Auditor* wishes to accept the terms on which the penalty is proposed, it must notify the *registering Institute* within ten *business days* of the date of service of the letter from the *registering Institute* containing the proposal.

**7.12** There are no rights of review or appeal under *regulations 8.05 to 8.10* (applicable to *Registered Auditors* registered by the *ICAI*) or *regulations 8.15 to 8.21* (applicable to *Registered Auditors* registered by the *ICAS*) against a *regulatory penalty*.

**7.13** The *Registration Committee* will take account of any comments a *Registered Auditor* makes about the terms of the *regulatory penalty*. It may then reduce the amount of the penalty.

**7.14** If the *Registered Auditor* accepts the penalty under *regulation 7.11A c*, the *Registration Committee*, as soon as is practical:

- a will make an order; and
- b may publish the order in any way it decides.

**7.15** Details of any penalty accepted, and the order made, will be kept by the *registering Institute* and the committee may, if it wishes, use that information in the future.

**7.16** Where the *Registration Committee* has proposed a *regulatory penalty* in accordance with 7.11A, but the *Registered Auditor* does not agree that the breach has been committed, or does not agree to the terms of the penalty proposed or fails to comply with the terms of the penalty, the matter may be dealt with as set out in Chapter 9.

Regulatory penalties are likely to be used, for example, where a firm has consistently been late in replying to letters from the committee or staff, has failed to submit annual returns, given incorrect information on the return, or has not honoured undertakings given to the committee.

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.

## Chapter 8

### Representation before committees, review and appeal

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

This chapter is divided into sections according to which Institute has registered the firm.

The regulations in this chapter are not applicable in respect of any sanction determined by the Competent Authority. The applicable procedures and any appeal process for those sanctions are set out by the Competent Authority which should be consulted if necessary.

#### Section 8A

#### Firms registered by the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants in Ireland

**8.01** In regulations 8.02 to 8.10, "affected party" means a firm, an applicant for responsible individual status, a responsible individual, an applicant for audit affiliate status or an audit affiliate.

#### Representation before committees

**8.02** Only the following may attend a meeting of the *Registration Committee*:

- a members of the *Registration Committee*;
- b the secretary to the committee;
- c any member of the *registering Institute's* staff whose role is to advise or inform the committee on its responsibilities, duties, powers or procedures, including the *Bye-laws, regulations* or the law; and
- d anyone else the committee permits.

The Competent Authority may attend, as an observer, the committee meetings convened in relation to any regulatory proceedings under these regulations.

**8.03** At meetings of the *Review Committee* and the *Appeal Committee*, the affected party, a representative or agent of the *registering Institute*, or a *monitoring unit* may attend and be represented. Witnesses may be present at the *Review Committee* and the *Appeal Committee* in accordance with the committees' procedures or regulations.

**8.04** The *Registration Committee*, the *Review Committee* and the *Appeal Committee* may ask the affected party, the *registering Institute*, a *monitoring unit*, any employee or agent of the *registering Institute* to clarify relevant points. The affected party must be given the opportunity to comment on any clarification made by others.

## **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.

**8.05** Within ten *business days* of the *Registration Committee* serving a decision or order on the affected party, it can apply to the *Review Committee* for a review of that decision or order. The affected party must apply in writing to the *registering Institute*. This applies to the following regulations:

- *regulation 2.05b* - refusing to grant registration;
- *regulation 2.05c* - granting of registration subject to conditions or restrictions;
- *regulation 2.18* - granting or refusing to grant a dispensation from the regulations;
- *regulation 4.05* - refusing to grant *responsible individual* status or granting such status subject to conditions or restrictions;
- *regulation 4.08e* - withdrawing *responsible individual* status;
- *regulation 5.05b* - refusing to grant *audit affiliate* status;
- *regulation 5.05c* - granting *audit affiliate status* subject to conditions or restrictions;
- *regulation 5.06* - withdrawing *audit affiliate* status;
- *regulation 7.01* - imposing restrictions or conditions;
- *regulation 7.01A* - a declaration concerning an *audit report*;
- *regulation 7.03* - withdrawing registration;
- *regulation 7.04* - suspending registration; or
- *regulation 7.07* - an urgent order.

Regulations 7.09 to 7.10 explain when orders come into effect.

Note that reviews of *Registration Committee* decisions in 7.03 include withdrawals of registration for failing to comply with a sanction imposed by the *Competent Authority*. This is a review of the *Registration Committee* decision, and not the original decision of the *Competent Authority*. An appeal process is available against the *Competent Authority's* decision and its procedures should be consulted if necessary.

**8.06** A meeting of the *Review Committee* will be arranged as soon as is practical after an affected party has applied under *regulation 8.05*. The *Review Committee* will consider the matter afresh and will hear new material put forward by the affected party. The *Review Committee* may make any decision which the *Registration Committee* could have made.

**8.07** The *Review Committee* may order an affected party to contribute to the costs of the review.

The *Review Committee* has the same powers as the *Registration Committee* when making orders against firms, responsible individuals, applicants for *audit affiliate* status or *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**

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.

**8.08** Within ten *business days* of the Review Committee serving its decision on an affected party under regulation 8.06 the affected party can appeal to the Appeal Committee by writing to the *registering Institute*. An appeal can only be made on one or more of the following grounds:

- a that the Review Committee:
  - 1) was wrong in law;
  - 2) wrongly interpreted any relevant *regulation, Bye-law, auditing standard, quality control standard* or associated guidance; or
  - 3) did not comply with these *regulations*, or procedures decided by the Review Committee under regulation 6.16;
- b that the Review Committee made an order which no tribunal, correctly applying the law to the facts before it and acting reasonably, would have made; or
- c that there was evidence which the Review Committee had not considered and which:
  - 1) could reasonably have led the Review Committee to make a different order; and
  - 2) could not have been put before the Review Committee even if those concerned had done their best to produce it.

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.

**8.09** As soon as is practical after notice of appeal has been received under regulation 8.08, the Appeal Committee will consider the appeal and may:

- a allow the appeal;
- b make a different decision;
- c send the matter back to the Review Committee to be considered again; or

d dismiss the appeal.

- 8.10 If the *Appeal Committee* sends a matter back to the *Review Committee* under *regulation 8.09* then *regulation 8.06* will apply when the *Review Committee* reconsiders. The meeting of the *Review Committee* to reconsider the matter will be arranged as soon as is practical.

**Section 8B**  
**Firms registered by the Institute of Chartered Accountants of Scotland**

8.11 In *regulations* 8.12 to 8.21, "affected party" means a *firm*, an applicant for *responsible individual* status, a *responsible individual*, an applicant for *audit affiliate* status or an *audit affiliate*.

**Procedures**

8.12 No affected party has the right to attend or be represented at *Registration Committee* meetings, other than for a hearing.

The Competent Authority may attend, as an observer, the committee meetings convened in relation to any *regulatory proceedings* under these regulations.

8.13 Except for urgent orders under *regulation* 7.07, the *Registration Committee* must be satisfied that an affected party has been given a reasonable opportunity to make written submissions before the committee considers any matters.

8.14 When it first considers a matter, except urgent orders under *regulation* 7.07, the *Registration Committee* will:

- a decide the matter in favour of the affected party;
- b postpone a decision; or
- c give written notice to the affected party of the order that the *Registration Committee* proposes and the factors taken into account.

8.15 a An affected party objecting to a proposed order is entitled to a hearing. The hearing will be before a *Panel* specifically appointed by the *Registration Committee*. At least 25% of the *Panel* members must not be accountants.

b If an affected party wants a hearing, it must notify the *Institute* in writing within ten *business days* of the proposed order being served.

c An affected party is entitled to attend a hearing and to be legally represented. The *Registration Committee* can appoint anyone to present the case against the affected party.

d As soon as is practical after an affected party has asked for a hearing, a *Panel* will consider the matters afresh and can make any order which the *Registration Committee* could have made.

8.16 If the affected party has not asked for a hearing within the time allowed, the order comes into force at the end of that time.

8.17 The *Registration Committee* may waive requirements of *regulations* 8.15 and 8.16, in favour of the affected party.

8.18 The *Panel* may order an affected party to contribute to the costs of the hearing.





## Appeal

8.19 Within ten *business days* of the *Registration Committee* serving an order following a hearing, the affected party can appeal to the *Appeal Committee* by writing to the *Institute*. An appeal can only be made on one or more of the following grounds:

- a that the *Registration Committee*:
  - 1) was wrong in law;
  - 2) wrongly interpreted any relevant *regulation*, *Bye-law*, *Rule* or *auditing standard*, *quality control standard* or associated guidance; or
  - 3) did not comply with these *regulations*, or procedures decided by the *Registration Committee* under *regulation 6.16*;

- b that the *Registration Committee* made an order no tribunal, correctly applying the law to the facts of the case before it and acting reasonably, would have made; or

- c that there was evidence which the *Panel* had not considered and which:
  - 1) could reasonably have led the *Panel* to make a different order; and
  - 2) could not have been put before the *Panel* even if those concerned had done their best to produce it.

An appeal cannot be made if this is only against the costs awarded by the *Registration Committee*.

8.20 As soon as is practical after notice of appeal has been received under *regulation 8.19*, the *Appeal Committee* will consider the appeal and may:

- a allow the appeal;
- b send the matter back to the *Registration Committee* to be considered again; or
- c dismiss the appeal.

8.21 If the *Appeal Committee* sends the matter back to the *Registration Committee* under *regulation 8.20*, the *Appeal Committee* will inform that committee how to proceed.

## Chapter 9

### Disciplinary arrangements

The purpose of this chapter is to apply the enforcement and disciplinary arrangements of the Competent Authority and each Institute as applicable to firms and responsible individuals registered to carry out Statutory Audit.

The disciplinary arrangements of an Institute do not apply in relation to matters arising from the audits of public interest entities and other audits that the Competent Authority has retained. In such cases the Competent Authority has jurisdiction and it will investigate the matter, come to a conclusion and, if it considers appropriate, determine a sanction, which will be binding on the firm or responsible individual in question. It will do this in accordance with its procedures, not those set out in the disciplinary arrangements of the registering Institute.

The RSBs may, in certain circumstances, also perform investigations regarding audit work in relation to the audit of a public interest entity or a retained audit. The enforcement consequences of any such investigations remain the responsibility of the Competent Authority

The Registration Committee does not have the power to apply the disciplinary arrangements of an Institute to the firms that it registers. Only the Disciplinary or Investigation Committees can do this. The bye-laws or rules already provide a framework for disciplinary action to be taken against members or firms and the purpose of this chapter is to apply the disciplinary arrangements of each Institute to the firms that it registers.

This chapter also contains the regulations relating to regulatory penalties for the ICAEW, for ICAS and ICAI these are in chapter 7.

#### **Decisions and Sanctions made by a Competent Authority**

**9.00** A decision or sanction determined by the *competent authority* in accordance with *SATCAR* binds a firm or responsible individual as if it were a sanction which the *Institute / Registration Committee* had determined under arrangements for enforcement within paragraph 12 of Schedule 10 of *SATCAR*

#### **Section 9A**

**Firms registered by the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland**

#### **Application of disciplinary arrangements**

**9.01** The disciplinary arrangements of the registering *Institute* apply to complaints of breaches of these regulations by a *Registered Auditor*.

For the ICAEW the disciplinary arrangements are set out in the Disciplinary Bye-laws, for ICAS they are in its Rules, Investigation Regulations, Appeal Tribunals Regulations and for the ICAI in the Disciplinary bye-laws and the Disciplinary regulations issued thereunder.

To the extent that it may be necessary in connection with the audit of a UK entity conducted by a *Registered Auditor* which is an *EEA audit firm*, the disciplinary arrangements of a registering *Institute* shall apply.

## **Section 9B**

### **Firms registered by the Institute of Chartered Accountants in England and Wales**

#### **Regulatory penalties**

The 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 Registration Committee may propose a regulatory penalty. The following regulations explain this process.

**9.02 The Registration Committee may propose a regulatory penalty to a Registered Auditor subject to the following:**

- a the Registered Auditor must have agreed that the breach of these regulations has been committed;**
- b the Registration Committee will decide the amount of the penalty and when it is to be paid. The Institute will set this out in the letter to the Registered Auditor proposing the penalty; and**
- c if the Registered Auditor wishes to accept the terms on which the penalty is proposed, it must notify the Institute within ten business days of the date of service of the letter from the Institute containing the proposal.**

**9.03 There are no rights of review or appeal under regulations 8.05 to 8.10 against a regulatory penalty.**

**9.04 The Registration Committee will take account of any comments a Registered Auditor makes about the terms of the regulatory penalty. It may then reduce the amount of the penalty.**

**9.05 If the Registered Auditor accepts the penalty under regulation 9.02c, the Registration Committee, as soon as is practical:**

- a will make an order; and**
- b may publish the order in any way it decides.**

**9.06 Details of any penalty accepted, and the order made, will be kept by the Institute and the Registration Committee may, if it wishes, use that information in the future.**

**9.07 Where the Registration Committee has proposed a regulatory penalty in accordance with 9.02, but the Registered Auditor does not agree that the breach has been committed, or does not agree to the terms of the penalty proposed or fails to comply with the terms of the penalty, the matter may be dealt with under the Disciplinary Bye-laws.**

Regulatory penalties are likely to be used, for example, where a firm has consistently been late in replying to letters from the 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.

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.

## **Guidance**

### **Chapter 1**

#### **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 chapter gives guidance to firms on this requirement.
2. The Act requires the Institute, as a RSB/, to have adequate rules and practices to make sure that registered auditors are fit and proper to be appointed as registered auditor. This chapter 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, the registering Institute 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. Guidance in chapter 2 of the regulations has already discussed the fundamental ethical principles. Firms should be complying with these to be fit and proper.
5. If a firm admits that it does not meet all the fit and proper standards, the firm may still be eligible for registration. However, the Registration Committee will weigh up the implications of all the circumstances. A firm which knowingly withheld information from the Registration Committee would not be 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 audit regulations a registered 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;
  - sub-contractors 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 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 one or more partners which are bodies corporate. 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 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 could be recorded when the annual compliance review is completed.

### **Cause for concern or notification to the registering Institute**

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 an audit principal would weigh more heavily than a ten-year-old finding of misconduct (and a reprimand by a professional body) against a tax principal who does not hold an appropriate qualification 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 the registering Institute of the circumstances and the 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 Registered 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
<b>Financial integrity and reliability</b>		
1 In the last ten 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 ten years has the firm been the subject of any insolvency proceedings?	<input type="checkbox"/>	<input type="checkbox"/>
<b>Civil liabilities</b>		
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 judgement 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"/>
<b>Good reputation and character</b>		
<b>Note:</b> 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 ten years) or road traffic offences that did not lead to a prison sentence.		
4 In the last ten years has the firm been:		
• 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 Is the firm (or in the case of a sole practice, the principal) 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
<b>Financial integrity and reliability</b>		
1 In the last ten 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 United Kingdom 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"/>
<b>Civil liabilities</b>		
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 judgement 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"/>
<b>Good reputation and character</b>		
<b>Note:</b> 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.		
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 ten 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?	<input type="checkbox"/>	<input type="checkbox"/>
• reprimanded, excluded, disciplined or publicly criticised by any professional body which you belong to or have belonged to?	<input type="checkbox"/>	<input type="checkbox"/>

- |   |  |                          |                          |
|---|--|--------------------------|--------------------------|
| • | refused entry to or excluded from membership of any profession or vocation?  | <input type="checkbox"/> | <input type="checkbox"/> |
| • | dismissed from any office (other than as auditor) or employment or requested to resign from any office, employment or <u>firm</u> ?  | <input type="checkbox"/> | <input type="checkbox"/> |
| • | 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? | <input type="checkbox"/> | <input type="checkbox"/> |
| • | 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?                               | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 | Are you currently undergoing any investigation or disciplinary procedures as described in 7 above?   | <input type="checkbox"/> | <input type="checkbox"/> |

## **Guidance**

### **Chapter 2**

#### **Guidance on monitoring compliance with the audit regulations**

##### **Introduction**

1. Audit regulation 3.20 requires a registered 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 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 registered 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 audit regulation 3.20.

##### **What is an audit compliance review?**

8. An ACR is to assure the firm that it has complied with the audit regulations and the audit regulations require a registered 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 audit compliance review?**

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 the 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 (that is before the audit report is approved). The ACR programme would check 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 audit compliance review?**

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 would be a waste of time and 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 registered auditor;
  - an Institute; or
  - a specialist organisation, such as a training consortium which provides a review service.
16. Sole practitioners, firms with only one responsible individual and other small firms should note that ISQC1 does not permit the responsible individual or the engagement

quality control reviewer for a particular audit to undertake a cold file review of that audit. It may be that there is another individual in the firm who, although not a responsible individual, is very experienced in current auditing requirements. Assuming that 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, then 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 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 that 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 responsible individual can add those 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 that 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 the Institute'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 audit compliance review be carried out?**

22. Audit regulation 3.20 requires a registered 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; there are changes to the law or to accounting or auditing standards. 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.
24. 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 audit compliance review?**

25. 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.

26. 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.
27. 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.
28. 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.

29. For a firm with only one responsible individual, 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 audit compliance review?**

30. All the ACR work needs to be documented so that the detailed findings can be discussed with the responsible individual 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.
31. 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.
32. 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.
33. 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**

34. 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.
35. 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.