

Audit Regulations

2008 edition (printed booklet)

Changes

The following lists all the amendments that have been made to the 2008 printed edition of the Audit Regulations up to those notified in Audit News number 48, January 2011. A copy of the regulations with these amendments incorporated can be obtained from www.icaew.com/auditnews.

		Effective from
1.	Regulation 3.07 - amendment to guidance	6 April 2008, Audit News No 44.
2.	Regulation 3.14 – amendment to process of transferring audit working papers	15 November 2010, Audit News No 48.
3.	Regulation 3.16 - signing audit reports - amendment to scope	6 April 2008, Audit News No 44.
4.	Regulation 3.20 - compliance reviews	For reviews of accounting periods ending on or after 15 December 2010, Audit News No 47
5.	Regulation 4.05 - change to guidance re non UK/RoI audit qualifications	15 December 2010, Audit News No 47
6.	Regulation 5.04 - application for affiliate status	15 December 2010, Audit News No 47
7.	Appeals by a responsible individual (regulations 7.10 and 8.05)	6 April 2008, Audit News No 44.

1. Regulation 3.07 – amendment to guidance

This regulation is about the prevention of undue influence by non-auditors over the audit process. However, the guidance with this regulation could be interpreted to mean that only responsible individuals could exercise judgement in relation to an audit. This is clearly not the case so the guidance has been amended to remove this inference.

Guidance to regulation 3.07

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.

This change is effective from 6 April 2008 and was notified in Audit News No 44.

2. Regulation 3.14 – transfer of audit working papers

Audit regulation 3.14 concerns requests made by a non-EU audit regulator to access the audit working papers of a UK audit firm. The most common situations are inspections by the US Public Company Accounting Oversight Board (PCAOB). Firms register with the PCAOB if they audit a company listed on the US stock exchange or a significant part of such a company. Registering commits the firm to PCAOB reviews of the relevant audits.

The overall process for allowing such reviews is set out in the EU Statutory Audit directive, which is transposed in to UK law in the Companies Act 2006, section 1253. Because of the way in which the UK law is drafted, audit regulation 3.14 is effectively a ‘copy-out’ of the law. As that section has changed, following various changes in the EU requirements, so the audit regulation also had to change.

This regulation does not apply to auditors of Irish companies, although Irish company law has similar requirements. This change is effective from 15 November 2011 and was notified in Audit News No 48. The revised regulation and guidance follows.

3.14 If requested by a competent authority of a country that is not an EEA member state, a Registered Auditor may transfer to that body its audit working papers provided:

- a the papers relate to the *audit* of a body that either:**
 - 1) has listed securities in the country of the competent authority; or**
 - 2) forms part of a group issuing statutory consolidated accounts in the country of the competent authority;**
- b the competent authority has requested the transfer of the audit working papers 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 competent authority has given the *oversight body* notice of its request;**
- d there is an agreement between that competent authority and the *oversight body*; and**
- e the *oversight body* 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.**

Guidance to regulation 3.14

For the purposes of this regulation:

- a '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 an RSB or an oversight body;
- 'transfer' means the physical or electronic transfer of audit working papers (or a copy) or allowing access to such papers;
- 'audit working papers' are any documents which are held by the registered auditor and are related to its audit of the financial statements of the body referred to in (a) above.

There may be occasions when a competent authority in a country (that is not an EEA member state) requests to see a registered auditor's audit working papers that relate to that audit. If this is so, the competent authority can carry out its function of reviewing the quality of audit work, then the competent authority 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 competent authority is conducting in its own country, then the competent authority 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 oversight body either has approved the transfer or is not prohibiting it. The oversight body 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 oversight body.

If the request is granted, it will only be granted in respect of audit working papers 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 oversight body. The current agreements can be viewed at frc.org.uk/pob.

If the transfer is to be by way of an inspection in the UK by an approved competent authority, then the oversight body, in practice through its Audit Inspection Unit, must participate and must lead the inspection, unless it decides not to do so.

This regulation only applies in respect of appointments for the audit of UK entities and only for requests received after 15 November 2010.

While this regulation does not apply to the audit of Irish entities, regulation 109 of S.I. No. 220 of 2010 imposes similar obligations on the auditors of Irish entities.

3. Regulation 3.16 – signing audit reports

The original version of this regulation required disclosure of the name of the responsible individual in charge of an audit (known for this purpose as the ‘senior statutory auditor’) to be disclosed on the audit report. In addition, the report had to be signed by the individual in his or her own name. However, this is only a requirement of company law and although the law extends this requirement to some other entities, the scope is smaller than the definition of audit used in the audit regulations. Therefore the scope of this regulation, as regards the disclosure of the senior statutory auditor, has been reduced to be the same as required by law. The revised regulation and guidance follows.

3.16 An audit report 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*.

Guidance to regulation 3.16

An audit report has to be signed by the firm with the added description ‘Statutory Auditor’. 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.

The APB has published guidance ([Bulletin 2008/6](#)) 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.

The requirements of this regulation apply to audit reports for financial years beginning on or after 6 April 2008. For entities listed in section 1210 of the 2006 Act the requirement applies as follows:

- Companies, banks, insurers, certain partnerships (see definition of an audit) – audit reports for financial years beginning on or after 6 April 2008.
- Building societies – audit reports for financial years beginning on or after 29 June 2008.
- Friendly and industrial and provident societies that are insurers – audit reports for financial years beginning on or after 29 June 2008.
- Limited liability partnerships – audit reports for financial years beginning on or after 1 October 2008.
- Lloyd's syndicates – audit reports for financial years beginning on or after 1 January 2009.

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.

Audit reports for financial periods starting before 6 April 2008, or the implementation date given above, should be signed in accordance with regulation 3.10 of the Audit Regulations (December 1995 edition, as amended).

This change is effective from 6 April 2008 and was notified in Audit News No 44.

4. Regulation 3.20 – compliance reviews

Audit regulation 3.20 requires firms to undertake an annual compliance review and part of that is a review of a sample of completed audits. In addition, audit regulation 3.10 requires firms to comply with in the International Standards on Quality Control (UK and Ireland) 1 (ISQC1). This standard also deals with compliance reviews and does not allow the engagement partner or engagement quality control reviewer for an audit to undertake a cold file review on an audit that they were involved with.

This means that a firm with a single responsible individual (or with two responsible individuals where, on a particular audit, one is the engagement partner and the other is the engagement quality control reviewer) would need to use an external reviewer to undertake cold file reviews needed as part of the annual compliance review.

While cold file reviews are required as part of each annual compliance review, ISQC1 does not explicitly refer to a review cycle. It does make reference to a cycle of three years,

which is the same as the guidance under audit regulation 3.20. To provide assistance to smaller firms the guidance in the audit regulations is amended to say:

- the engagement partner or engagement quality control reviewer cannot do the cold file review for an audit that they are responsible for;
- there may be someone else in the firm who is not a responsible individual who could do the review;
- where this is not possible, cold file reviews should be conducted by someone external to the firm at least once every three years; and

Further guidance, which is applicable to all firms, notes that whoever the firm uses to do the cold file review should be technically up to date and have experience of assignments similar to those being reviewed.

The revised guidance follows:

New guidance paragraph added to the guidance under regulation 3.20:

In addition, such firms should note that ISQC1 (effective for reviews of audits for periods ending on or after 15 December 2010) 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.

Additional guidance added to existing paragraph:

There is no need for the firm to conduct the review itself. Some firms may find it more practical and cost-effective to use a service provided by the Institute 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.

In guidance chapter 2 of the audit regulations, a new paragraph 16 is inserted, the subsequent paragraphs are renumbered and there are minor changes (shown underlined below) to renumbered paragraphs 18, 19 and 20.

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. Each Institute can offer direct assistance with audit compliance and cold file reviews.
18. 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.
19. 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.

20. 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.

This change is effective for reviews of accounting periods ending on or after 15 December 2010 and was notified in Audit News No 47

5. Regulation 4.05 - change to guidance re non UK/RoI audit qualifications

For some time the audit regulations have included, as guidance to audit regulation 4.05, a note that an Audit Registration Committee would, when considering an application for responsible individual status, expect an overseas applicant to demonstrate UK/RoI audit experience. This is an addition to the requirements of the EU directive and is against the principal in the directive that, to a large extent, there should be a relatively free flow of auditors around the EU. The guidance has therefore been deleted. However, when an Audit Registration Committee considers any application for responsible individual status it always considers the quality and recency of the applicant's audit experience. The revised guidance follows, with regulation 4.05 (unchanged) for completeness.

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.

Guidance to regulation 4.05

Each 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. ~~In the case of holders of an approved overseas or EEA qualification they will also have to show experience of UK/RoI audit work.~~

This change is effective from 15 December 2010 and was notified in Audit News No 47. Note there is a consequential change to the chart in schedule 1 to chapter 4 which is not shown here.

6. Regulation 5.04 – application for affiliate status

When the 2008 regulations were produced, the separate chapters for audit affiliates were amalgamated. The wording then used could be interpreted to imply that affiliates need to comply with all the regulations that apply to members. This is not the case, the key requirement is that an affiliate agrees to comply with the audit regulations and the code of ethics. For clarity the 2008 amendment has been removed. The revised regulation follows.

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* and with the obligations and liabilities of a member of the *Institute* and to be bound by the *Royal Charters, the Rules, Bye-laws* and other regulations of the *Institute*;
- c has agreed to observe and uphold the Code of Ethics of the *Institute*; and
- d has agreed to provide the *Institute* with all the information it requires.

This change is effective from 15 December 2010 and was notified in Audit News No 47.

7. Appeals by a responsible individual

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 Recognised Supervisory Body, such as an Institute. The regulations as originally drafted did not allow for a review of a decision to withdraw responsible individual status. The amended regulations 7.10 and 8.05 now allow either the firm or the responsible individual to apply for a review or an appeal.

7.10 A decision made under *regulations 7.01, 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.

Guidance to regulation 7.10

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; and
- withdrawal of a firm's registration under regulation 7.03.

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 *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 7.03*** - **withdrawing registration;**
- regulation 7.04*** - **suspending registration; or**
- regulation 7.07*** - **an urgent order.**

[Note, the affected party is defined as firm, an applicant for responsible individual status, a responsible individual, an applicant for audit affiliate status or an audit affiliate.]

This change is effective from 6 April 2008 and was notified in Audit News No 44.

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