

**Audit Regulations  
and Guidance**

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

December 1995

(This includes all amendments to the Regulations as previously notified to firms in Audit News)

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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
ICAS	The Institute of Chartered Accountants of Scotland
ARC	Audit Registration Committee
RSB	Recognised Supervisory Body
APB	Auditing Practices Board
SAS	Statement of Auditing Standards
ACCA	Chartered Association of Certified Accountants
CPE	Continuing professional education
PQE	Post qualification education
CPD	Continuing professional development
PII	Professional indemnity insurance

## Preface

### Changes to the audit *regulations*

- 1 The Audit Regulations were first issued in August 1991. The three Institutes have now revised the regulations, to incorporate changes made since they were originally issued and to make other improvements and changes.
- 2 Previously each Institute had its own regulations. This revision is common to the three Institutes. Separate regulations are used for any differences caused by the different constitutions or legal systems of each Institute.
- 3 In deciding the format for the revised regulations an aim was to make them 'user-friendly'. This has been dealt with in a number of ways. The chapters are in a more logical sequence. There are more chapters so that each covers a more specific area. Within the limits of regulations which have a legal standing, the wording is in 'plain English'.
- 4 Guidance is incorporated in the regulations. Where the guidance is too extensive it has been included in part 2 of this booklet and cross-referenced. The regulations are in **bold** print to distinguish them from the guidance.
- 5 The PII regulations and bye-laws and ethical guidance are no longer included. This information is available to firms from members' handbooks.

The following gives a brief outline of the major revisions to the regulations.

#### **Chapter 1 - General**

This chapter now only contains interpretative and transitional regulations. The regulations on the powers and procedures of the committees are now in chapter 7.

#### **Schedule - Definitions and interpretation**

The definitions have been updated where necessary. In particular the definition of audit has been changed to show more clearly the work covered by these regulations.

#### **Chapter 2 - Eligibility and registration**

Chapter 2 now only includes the details on eligibility and registration. Also included are regulations covering a firm's ongoing responsibility to notify changes to the Institute, and the payment of fees.

#### **Chapter 3 - Conduct of regulated audit work**

This chapter still deals with the conduct of audit work. It has been amended to follow the order of schedule 11 to the Companies Act 1989. This schedule details the rules that a Recognised Supervisory Body should have concerning the conduct of an audit.

The thrust of this chapter is now slightly different. There is far less emphasis on the need for procedures. Instead a firm has to be able to demonstrate the achievement of certain objectives (for example that principals and employees are fit, proper and independent; and that the firm is complying with the audit regulations).

Extensive guidance is given in chapter 3, and in part 2 of this booklet.

#### **Chapter 4 - Qualified individual and responsible individual**

This was previously chapter 5. It has now been expanded to include material on responsible individuals. A change is that employees can now be responsible individuals. Previously this was only possible in corporate practices.

#### **Chapter 5 - Audit affiliates and audit regulated non-members**

This material was previously a separate set of regulations. The regulations are basically unaltered. One change is to allow affiliate status to continue if an affiliate moves between two firms which are both registered auditors, or if a firm is taken over. This is so long as the firms concerned are registered with the same Institute.

The ICAS uses the term 'regulated non-members' rather than 'affiliates' and has different regulations. These are contained in section B of this chapter.

#### **Chapter 6 - Corporate practices**

Material on corporate practices was previously in chapters 2 and 3. This has now been combined into a new chapter 6. The aim was to have one chapter that dealt with the differences of a corporate practice as these may become more important in the future. It has a similar structure to chapter 2 in that it deals with eligibility, registration and continuing obligations.

#### **Chapter 7 - The committees**

This chapter contains the material that was in the old chapter 1. It deals with the powers and duties of the various committees involved in audit regulation.

#### **Chapter 8 - Regulatory action, cessation and withdrawal of registration**

These regulations were previously in chapter 2. Again, no substantial new material has been added. The effect of the suspension of a firm's registration has been clarified (regulation 8.08).

#### **Chapter 9 - Representation before committees, review and appeal**

Again, these regulations were in chapter 2, and no major items have been added. The chapter is in two parts, reflecting the procedures of the ICAEW and ICAI on the one hand, and the ICAS on the other.

#### **Chapter 10 - Disciplinary arrangements**

This chapter contains the material that was previously in chapter 4. The only changes are to update the references to the bye-laws. Separate sections are provided for the three Institutes to reflect the different constitutional arrangements of each.

### **Guidance chapter 1 - Guidance on fit and proper status**

The guidance in this chapter is to assist firms in deciding whether or not the firm, its principals and employees are fit and proper. It is largely unchanged from the previous guidance.

### **Guidance chapter 2 - Guidance on maintaining competence**

This guidance is again largely unchanged from that in the previous regulations.

### **Guidance chapter 3 - Guidance on monitoring compliance with the audit *regulations***

This is entirely new guidance, although it was in Audit News issue 11 in a different format. It is to assist firms in complying with regulation 3.14 (that a firm must monitor its compliance with the audit regulations).

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## Introduction

1. The Institutes are all Recognised Supervisory Bodies for regulating auditors. They must have rules setting out how auditors will be regulated. This booklet contains those rules, and guidance on how they should be followed.
2. The Institutes are also Recognised Qualifying Bodies. 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.
3. The objectives of the Institutes in issuing these audit regulations are to make sure:
  - auditors registered with the Institutes maintain high standards of 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.
4. 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; and
  - make sure that all principals and employees are competent and continue to be competent to carry out audit work.
5. 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.
6. 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.
7. The regulations should be read in conjunction with:
  - the Institutes' Guide to Professional Ethics (including the fundamental principles);
  - other ethical material included in members' handbooks;
  - Statements of Auditing Standards and Practice Notes issued by the Auditing Practices Board;
  - Financial Reporting Standards issued by the Accounting Standards Board;
  - relevant parts of company legislation in the United Kingdom and the Republic of Ireland; and
  - Professional Indemnity Insurance Regulations or Bye-laws.
8. Each Institute issues a magazine which often has new material on audit related matters. The ICAEW publishes Accountancy; ICAS the CA Magazine and ICAI Accountancy Ireland. One of these should also be read.

In addition, Audit News is issued by the Institutes and contains information for registered auditors, including changes to the regulations.

9. 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.
10. The regulations are intended to apply to all firms. However, some terms may be defined in up to three different ways as, in some cases, different regulations are used to deal with the different circumstances of each Institute. So it is important that the definitions are checked. In practice the main differences are the administration of the Registration Committee and disciplinary matters.

## **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 Institutes.  | <b>See the list of telephone numbers at the end of this introduction.</b>  |
| Make sure that enough principals in the firm are qualified individuals.                           | <b>See <i>regulations 2.01 and 2.02</i>; for corporate practices see <i>regulations 6.02 to 6.04</i>.</b>                                    |
| Make sure that the firm, all principals and employees are fit and proper.                         | <b>See the guidance on fit and proper status (Part 2, guidance chapter 1).</b>   |
| Check that the firm has adequate professional indemnity insurance (PII).                          | <b>See <i>regulation 2.01(b)</i> and the separate <i>PII regulations</i> or bye-laws of your registering Institute.</b>                      |
| Make sure that all principals and employees who will deal with audit work are competent to do so. | <b>See the guidance on maintaining competence (Part 2, guidance chapter 2).</b>  |
| Are all the partners members of one of the Institutes or the ACCA?                                | <b>If they are not, non-members need to become audit affiliates or audit regulated non-members of the registering Institute (chapter 5).</b> |

Fill in and return the application form with a cheque for the registration fees.

### **Remaining a Registered Auditor**

Once a year check that:

- |  |  |
|--|--|
| • principals and employees are fit and proper persons;   | <b>See <i>regulation 3.05</i> and the guidance on fit and proper status (Part 2, guidance chapter 1).</b>  |
| • principals and employees who carry out audit work are competent and complying with CPE, PQE or CPD guidelines; | <b>See <i>regulation 3.11</i> and the guidance on maintaining competence (Part 2, guidance chapter 2).</b> |
| • principals and employees are   | <b>See <i>regulation 3.02</i>.</b>   |

independent;

- PII is in place and adequate; **See *regulation 2.01 (b)*.**
- the firm's quality control procedures are being complied with; **See *regulation 3.14 and the guidance on monitoring compliance with the audit regulations (Part 2, guidance chapter 3)*.**
- each audit reappointment has been properly considered; **See *regulation 3.04*.**
- the annual registration fee is paid promptly. **See *regulation 2.08*.**

When necessary make sure that:

- all changes are notified within ten business days **See *regulations 2.07, 5.10, 5.28 and 6.08*.**
- new principals and employees are independent, fit and proper, and competent; **See *regulations 3.02, 3.05 and 3.11*.**
- the firm properly considers each audit appointment to new clients. **See *regulation 3.04*.**

## **Help and advice**

While registered auditors must comply with the regulations and the related pronouncements and guidelines, help and advice is readily 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 Standards Office (Audit Regulation):	
- application forms	01908 546243
- queries on audit regulations	01908 546336
- professional indemnity insurance	01908 546256
Technical enquiries	01908 248025
Ethical enquiries	01908 248258
Practice Services	020 7920 8700
Support members helpline	0800 917 3526
Audit Faculty	020 7920 8526
Audit related courses	020 8247 1646
Audit related books and manuals	087 0777 2906
Education and Training Department:	01908 248028
- queries on appropriate qualifications	

### Institute of Chartered Accountants of Scotland:

Professional Authorisation Department	
- application forms	0131 347 0282
- queries on audit regulations	0131 347 0282
- professional indemnity insurance	0131 347 0286
- queries on appropriate qualifications	0131 347 0282
Technical enquiries	0131 347 0241
Ethical enquiries	0131 347 0280
Audit related courses	0131 347 0232
Audit related books and manuals	0131 347 0138

### Institute of Chartered Accountants in Ireland:

If you are telephoning within the Republic of Ireland, telephone 01 6680400 for all enquiries.  
From the United Kingdom, use the following numbers:

Quality Assurance Department:	
- application forms	028 90231541
- queries on audit regulations	028 90231541
- professional indemnity insurance	028 90231541
Technical enquiries	00 3531 6377200
Ethical enquiries	028 90231541
Audit related courses	028 90321600
Audit related books and manuals	028 90321600
Education and Training Department	
- queries on appropriate qualifications	00 3531 6377200

# Audit Regulations

## Chapter 1

### General

This chapter deals with the scope and interpretation of the regulations.

The regulations apply to all firms regardless of the registering Institute, unless stated otherwise. Some of the regulations use terms whose meanings differ according to the registering Institute. Where this happens, a firm should use the appropriate term and these are listed in schedule 1 to this chapter.

The regulations are printed in **bold** type and guidance in light type. Where defined terms 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 important.

Any changes or amendments to these regulations will be published in Audit News which the Institute sends to all registered auditors.

### Scope and status

**1.01** *These regulations apply to firms seeking registration and to firms registered by the Institute as eligible for appointment as company auditor under the Act. The regulations also apply to audit affiliates or audit regulated non-members. In certain cases the regulations apply to firms after registration has ceased and to audit affiliates or audit regulated non-members after this status has ceased.*

Each Institute is a Recognised Supervisory Body under the legislation of Great Britain and Northern Ireland, and each has been recognised in the Republic of Ireland. Each Institute can register auditors in each of these countries. Unless a Registration Committee decides otherwise, this usually means that a firm registered by one Institute can carry out audits of companies incorporated in the other jurisdictions. There are exceptions as follows:

- Sole practitioners whose audit qualification derives from Section 161(1)(b) of the Companies Act 1948 (adequate knowledge and experience or pre-1947 practice) cannot be registered in Northern Ireland because this qualification is not recognised there. This exception also applies to partnerships if all the partners only have this qualification.
- A similar situation exists for firms registered under the laws of Northern Ireland. They cannot be registered in Great Britain if they are sole practitioners whose audit qualification derives from Section 155 of the Companies Act (Northern Ireland) 1960 (adequate knowledge and experience or pre-1960 practice). This exception also applies to partnerships if all the partners only have this qualification.

- Firms registered in Great Britain or Northern Ireland are also registered under the laws of the Republic of Ireland if at least one principal has an auditing qualification granted by the Institute which registers the firm.
- Corporate practices (including limited liability partnerships but not a partnership under Scots law), even if registered by the ICAI, cannot audit companies incorporated under the laws of the Republic of Ireland.
- Firms registered under the laws of the Republic of Ireland are also registered under the laws in Great Britain and Northern Ireland if they satisfy the requirements of regulation 2.02, unless they elect not to be.

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

### 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.

### Transitional arrangements

**1.04** These *regulations* come into force on 23 December 1995. From this date the *Audit Regulations* (August 1991 edition, as amended) are no longer in force, except where *regulations* 1.05, 5.02 and 5.20 of these *regulations* apply.

**1.05** Where any regulatory or disciplinary action is being taken against a *Registered Auditor* by the *Institute* for actions taken before these *regulations* came into force, the *Audit Regulations* (August 1991 edition, as amended) apply.

### Notifications

**1.06** 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 Directorate, Silbury Court, 412 – 416 Silbury Boulevard, Milton Keynes, MK9 2AF.

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

**The Institute of Chartered Accountants in Ireland:**  
Professional Standards Department, 11 Donegal Square South, Belfast, BT1 5JE.

or as otherwise notified to *firms*.

### Guidance

Guidance is provided to help firms to apply 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 purely that. The range of firms registered under these regulations means it is impractical to provide guidance for every type of firm. Firms may comply with the regulations in different but equally valid ways. 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.

ICAEW	The Institute of Chartered Accountants in England and Wales
ICAI	The Institute of Chartered Accountants in Ireland
ICAS	The Institute of Chartered Accountants of Scotland

In the regulations the following words have the following meanings.

the Act	<b>The Companies Act 1989, or the Companies (Northern Ireland) Order 1990, or the Companies Act 1990 of the Republic of Ireland.</b>
the 1985 Act	<b>The Companies Act 1985.</b>
the 1989 Act	<b>The Companies Act 1989.</b>
the NI Order 1990	<b>The Companies (Northern Ireland) Order 1990.</b>
the RI 1990 Act	<b>The Companies Act 1990 of the Republic of Ireland.</b>
Appeal Committee	<b>a the Appeal Committee of the ICAEW appointed by the Council under paragraph 4(a) of schedule 2 of the Bye-laws;</b> <b>b the Appeal Committee of the ICAS appointed under Rule 61;or</b> <b>c the Appeal Committee of the ICAI appointed under Chapter IX of the Bye-laws.</b>
appropriate qualification	<b>A qualification as defined by section 31 of the 1989 Act, article 34 of the NI Order 1990, or section 187 of the RI 1990 Act.</b>
associate	<b>In relation to a body corporate is a participating interest, as defined by section 260 of the 1985 Act or section 268 of the Companies (Northern Ireland) Order 1986 or paragraph 35 of Statutory Instrument 201 - European Communities (Companies: Group Accounts) Regulations 1992, that it holds in another undertaking or that another undertaking holds in it.</b>
associated undertaking	<b>In relation to a body corporate:</b> <b>a) a parent undertaking or subsidiary undertaking of the body corporate referred to; or</b>

- audit
- b) a subsidiary undertaking of a parent undertaking of the body corporate.
- a) (i) any function in respect of a company incorporated in the United Kingdom or the Republic of Ireland which is required to be performed by a registered auditor as auditor of that company;
- (ii) any function in respect of any of the following entities constituted in the United Kingdom or the Republic of Ireland which is required to be performed by a registered auditor as auditor of that entity:
- a building society;
  - a credit union;
  - a charity;
  - an industrial and provident society;
  - a friendly society;
  - a pension scheme;
  - a limited liability partnership;
  - an open ended investment company;
  - a unit trust;
  - a Lloyds' syndicate;
  - a mutual life office; and
  - a person authorised under legislation relating to the conduct of investment, insurance or mortgage business;

where such function is expressly required to be discharged either by or under United Kingdom or Republic of Ireland legislation.

- b) any function in respect of a company incorporated in the United Kingdom or the Republic of Ireland which is included on the official list which is performed by a registered auditor 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 either of those jurisdictions.

The reference above to an 'official list' is to the official list as defined in the Financial Services and Markets Act 2000, Part 6 or to the official list of the Irish Stock Exchange in the Republic of Ireland. It therefore does not include companies whose shares are publicly traded but that are not included in the official list.

The reference above to a 'listing authority' is to the Financial Services Authority in the UK and the Irish Financial Services Regulatory Authority in the Republic of Ireland.

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 103 of the Companies Act 1985).

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 undertake investment advice etc. In the UK these would be entities with a Part IV permission under the Financial Services and Markets Act 2000 (or regulations made under that Act).

This definition of 'audit' does not include an independent accountant's report required by section 249C of the Companies Act 1985 or similar under other legislation. 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.

audit affiliate

- a) **a person granted affiliate status by the Council of the ICAEW under clause 12A of the Supplemental Royal Charter of 21 December 1948 and granted audit affiliate status for the purposes of these *regulations*; or**
- b) **a person granted status as an affiliate of the ICAI under Bye-law 42(d) for the purposes of these *regulations*.**

See the definition of audit regulated non-member for the ICAS equivalent of an affiliate.

audit client

**Any person whose accounts are being audited under these *regulations* by a Registered Auditor.**

audit compliance principal	<b>A principal of the Registered Auditor (or a sole practitioner where the Registered Auditor is a sole practice) who is a responsible individual and whose duties include monitoring that the Registered Auditor has complied, and is likely to continue to comply, with these <i>regulations</i>, or such other audit <i>regulations</i> as the Institute may issue.</b>
audit regulated non-member	<b>A person recognised as a regulated non-member under chapter XX of the Rules of the ICAS.</b>
auditing certificate	<b>A certificate issued to a member by the ICAI as evidence of holding an appropriate qualification.</b>
audit report	<b>A report by a Registered Auditor which relates to an audit.</b>
auditing standards	<p><b>a) for audits of accounting periods commencing prior to 15 December 2004, the basic principles and essential procedures (shown in bold type) in the Statements of Auditing Standards; or</b></p> <p><b>b) for audits of accounting periods commencing on or after 15 December 2004, the basic principles and essential procedures (shown in bold type) in the International Standards on Auditing (UK and Ireland) which are to be construed and applied having regard to the explanatory text and other material in those standards;</b></p> <p><b>issued by the Auditing Practices Board.</b></p>
audit work	<b>The work done by or on behalf of the Registered Auditor in respect of an audit.</b>
body corporate	<b>Includes a body corporate constituted under the laws of a country or territory outside the United Kingdom or Republic of Ireland.</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>
Controller	<b>A person who, alone or with any associate or associates, 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 body corporate, or of another body corporate of which it is a subsidiary undertaking.</b>
corporate practice	<b>A body corporate which engages in the profession of accountancy.</b>
Council	<p><b>a) the Council of the ICAEW under Clause 2 of the Supplemental Royal Charter of 21 December 1948;</b></p> <p><b>b) the Council of the ICAS under Rule 45; or</b></p>

	<b>c) the Council of the ICAI under paragraph 3 of the Charter Amendment Acts.</b>
director	<b>Any person occupying the position of director (called by whatever name) in a body corporate. Also any person under whose directions or instructions the directors of the body corporate are used to acting.</b>
Disciplinary Committee	<p><b>a) the Disciplinary Committee of the ICAEW appointed by the Council under the schedule to the Disciplinary Bye-laws; or</b></p> <p><b>b) the Committee appointed under the Bye-laws of the ICAI.</b></p>
Discipline Committee	<b>The Committee appointed under the Rules of the ICAS.</b>
Disciplinary Scheme	<b>Any investigation and discipline scheme in which the Institute participates for the purposes of the independent investigation of matters concerning members and firms.</b>
employee	<b>Anyone who carries out audit work for a Registered Auditor, including sub-contractors and consultants.</b>
ethical standards	<b>The basic principles and essential procedures (shown in bold type) in the Ethical Standards which are to be construed and applied having regard to the explanatory text and other material in those standards, as issued by the Auditing Practices Board.</b>
firm	<p><b>a) an individual who engages in the profession of accountancy as a sole practitioner;</b></p> <p><b>b) a partnership which engages in the profession of accountancy; or</b></p> <p><b>c) a corporate practice.</b></p>
Group	<b>A body corporate, any parent or subsidiary undertakings and any parent or subsidiary undertakings of any of them.</b>
Guide to Professional Ethics	<p><b>a) the Guide to Professional Ethics published by the ICAEW;</b></p> <p><b>b) the Guide to Professional Ethics published by the ICAS; or</b></p> <p><b>c) the Ethical Guide for Members published by the ICAI.</b></p>
Institute	<b>a) the Institute of Chartered Accountants in England and Wales (ICAEW);</b>

	<ul style="list-style-type: none"> <li>b) <b>the Institute of Chartered Accountants of Scotland (ICAS); or</b></li> <li>c) <b>the Institute of Chartered Accountants in Ireland(ICA).</b></li> </ul>
Investigation Committee	<ul style="list-style-type: none"> <li>a) <b>the Investigation Committee appointed by the Council of the ICAEW under the schedule to the Disciplinary Bye-laws;</b></li> <li>b) <b>the Committee appointed by the Council of the ICAS under Rule 58; or</b></li> <li>c) <b>the Committee appointed by the Council of the ICAI under Bye-law 62.</b></li> </ul>
monitoring unit	<b>The Institute or any body undertaking monitoring in accordance with paragraph 10 or paragraph 10A of schedule 11 of the Companies Act 1989.</b>
Panel	<ul style="list-style-type: none"> <li>a) <b>the Review Committee; or</b></li> <li>b) <b>a sub-committee of the Registration Committee of the ICAS.</b></li> </ul>
partner	<b>Includes both salaried and equity partners and members of a limited liability partnership.</b>
	Corporate practices may be partners, where these regulations allow.
PII bye-laws	<b>The Professional Indemnity Insurance Bye-laws of the ICAS.</b>
PII regulations	<ul style="list-style-type: none"> <li>a) <b>the Professional Indemnity Insurance <i>Regulations</i> of the ICAEW; or</b></li> <li>b) <b>the Professional Indemnity Insurance <i>Regulations</i> of the ICAI.</b></li> </ul>
practising certificate	<b>A certificate issued to a member by an Institute authorising the member to engage in public practice.</b>
practice notes	<b>Practice notes and bulletins issued by the Auditing Practices Board which give guidance on how Auditing Standards can be applied and on new or emerging issues, and current auditing guidelines issued by the Auditing Practices Committee.</b>
principal	<b>An individual in sole practice or any partner or director of a firm.</b>
qualified individual	<b>Anyone who meets the requirements of <i>regulation</i> 4.01, 4.02, 4.03 or 4.04.</b>

quality control standards	<b>The basic principles and essential procedures (shown in bold type) in the International Standards on Quality Control (UK and Ireland) which are to be construed and applied having regard to the explanatory text and other material in those standards, as issued by the Auditing Practices Board.</b>
Recognised Supervisory Body	<p>a) <b>a body declared by the Department of Trade and Industry or the Department of Economic Development to be a Recognised Supervisory Body; or</b></p> <p>b) <b>a body recognised by the Department of Enterprise and Employment under the Act.</b></p>
Register	<b>The register of auditors compiled under sections 35 and 36 of the 1989 Act, articles 37 and 38 of the NI Order 1990, or section 198 of the RI 1990 Act.</b>
Registered Auditor	<b>A firm entered on the register as eligible for appointment as company auditor under section 25 of the 1989 Act, article 28 of the NI Order 1990, or section 185 of the RI 1990 Act.</b>
registering Institute	<b>The Institute to which the firm is applying for or from which it has obtained registration.</b>
Registration Committee	<b>The Committee of the registering Institute appointed under <i>regulation 7.01</i> or any sub-committee of that committee. For the ICAEW and ICAS this is the Audit Registration Committee, for the ICAI this is the Quality Review Committee.</b>
regulations	<b>These <i>regulations</i> as modified or amended.</b>
regulatory penalty	<b>An amount charged with the consent of a Registered Auditor as a penalty for breaches of these <i>regulations</i> which the Registered Auditor agrees have been committed.</b>
responsible individual	<b>A principal or employee responsible for audit work and designated as such under <i>regulation 4.06</i>.</b>
Review Committee	<p>a) <b>the Review Committee of the ICAEW appointed by Council; or</b></p> <p>b) <b>the Quality Assurance Review Committee of the ICAI appointed by Council.</b></p>
Rules	<b>The rules of the ICAS.</b>
secretariat	<b>The people employed by an Institute to carry out its functions.</b>
voting rights	<b>The rights to vote on all or substantially all matters at meetings (of partners, members of a limited liability</b>

**partnership, directors or shareholders) of the body in question. In deciding what voting rights are to be taken into account, paragraphs 5 to 11 of schedule 10A to the 1985 Act and the Northern Ireland Order 1986 apply to corporate practices including 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 the masculine gender include the feminine. 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.

Any references to legislation, regulations, bye-laws, rules or other documents, will apply to any re-enactment, re-issue or amendment.

## Chapter 2

### Eligibility and registration

This chapter sets out the eligibility criteria and how to become a registered auditor. Chapter 4 has the regulations concerning responsible individuals and qualified individuals. See chapter 5 for the regulations covering audit affiliates for the ICAEW and ICAI. The ICAS uses the term 'regulated non-member' for affiliate. The regulations for audit regulated non-members are in chapter 5.

Corporate practices must comply with the regulations in chapter 2, but chapter 6 contains additional regulations about eligibility and other matters.

A firm registered under the Companies Act 1989 is usually eligible to carry out audits under the laws of Northern Ireland and the Republic of Ireland. Equally, a firm registered under the laws of Northern Ireland and the Republic of Ireland is usually eligible to carry out audits as though it was registered under the Companies Act 1989. No separate registration is necessary. A registered auditor which is a corporate practice (this includes a limited liability partnership) is not allowed to carry out audits of companies registered under the laws of the Republic of Ireland.

There are some different eligibility requirements in the three countries. These relate to individuals qualified by experience or overseas qualifications and to the composition of a partnership. The guidance after regulations 1.01 and 4.04 gives further details.

#### Eligibility

A key purpose of the Act is to make sure that only appropriately qualified firms are appointed as company auditors. Therefore, under the Act, the Institute, as a Recognised Supervisory Body, must have rules governing the ownership and control of registered auditors. For a sole practitioner this is achieved by regulation 2.01 which only allows registration if the practitioner is a qualified individual. Additional conditions for partnerships and limited liability partnerships are in regulation 2.02, and for corporate practices (other than limited liability partnerships) they are in regulations 6.02 to 6.06.

To be eligible for registration a firm must:

- be fit and proper; and
- comply with the PII regulations or PII bye-laws.

**2.01** 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 company auditor;
- b** the *firm* has professional indemnity insurance or other appropriate arrangements as required by the *PII regulations* or *PII bye-laws*;
- c** if a *firm* is a sole practice, the sole practitioner is a *qualified individual*;

- d** if a *firm* is a partnership or limited liability partnership the *responsible individuals* are *qualified individuals* and the *firm* meets the requirements of *regulation 2.02*;
- e** if a *firm* is a *corporate practice* (other than a limited liability partnership) the *responsible individuals* are *qualified individuals* and the *firm* meets the requirements of *regulations 6.02 to 6.06*;
- f** if a *firm* applies to be registered to conduct audits under the laws of the Republic of Ireland, at least one *responsible individual* is a member of the *registering Institute*; and
- g** the *firm* has appointed an *audit compliance principal* as required under *regulation 3.15* whose name has been given to the *registering Institute*.

Regulation 2.01 sets out the conditions which a firm must satisfy to become a registered auditor. The firm either meets the conditions of sub-paragraphs (b) 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, tell 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.
- Do professional work with due skill, care, diligence and timeliness and with regard to the expected technical and professional standards.
- 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 tell the committee about any action it has taken to correct the problem.

The PII regulations can be found in volume I of the ICAEW's Members Handbook or the ICAI's Members Handbook, and the PII bye-laws are in the Council Statements of the ICAS.

**2.01A** No *Institute* member or *firm* may accept an *audit* appointment unless the member or the *firm* is registered by a *Recognised Supervisory Body*.

**2.02** The *Registration Committee* may register a *firm* which is a partnership or limited liability partnership only if the committee is satisfied that:

- a** the partnership or limited liability partnership meets the requirements of *regulation 2.01*;
- b** each *partner* is either:
  - 1) a member of one of the *Institutes*;
  - 2) a member of the Chartered Association of Certified Accountants;
  - 3) an *audit affiliate* or *audit regulated non-member* of the *registering Institute*;  
or
  - 4) a *Registered Auditor*;
- c**
  - 1) if each *partner* has equal *voting rights*, at least a majority of the *partners* are *qualified individuals, Registered Auditors* or a combination of both;
  - 2) in any other case, at least a majority of the *voting rights* are held by *qualified individuals, Registered Auditors* or a combination of both; and
- d** if the *firm's* policies are set by - and implemented under the direction of - a management committee, board or other body, at least a majority of the *voting rights* in that body are held by *qualified individuals, Registered Auditors* or a combination of both.

If a firm wants to register with the ICAEW or the ICAI, any partner who is not a member of an Institute or the ACCA must become an audit affiliate of the registering Institute. This is dealt with in chapter 5. For the ICAS, any partner who is not a member of an Institute or the ACCA must become an audit regulated non-member. Details are also given in chapter 5.

If all partners have equal voting rights, at least a majority of the partners must be qualified individuals or registered auditors. However, if voting rights are not held equally then at least a majority must be held by a combination of qualified individuals and registered auditors.

If the firm is managed by a committee or other management body, the majority voting requirement only relates to any policy-making committee or body.

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 partners: if any partners are not members of one of the Institutes or the ACCA, they must become audit affiliates or audit regulated non-members.
- Small firms: a firm of two or three partners who are not all qualified individuals will be eligible only if the partnership or limited liability partnership agreement specifically gives at least a majority of the voting rights to partners who are qualified individuals.

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

**2.03a** A *Registered Auditor* must continue to meet the requirements of these *regulations*.

**2.03b** A *Registered Auditor* must co-operate fully with the *Institute*, its *secretariat*, *Committees*, a *monitoring unit* or a *disciplinary scheme*.

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 regulation 8.18.

**2.04** The *Registration Committee* may take into account any guidance that the *Council* issues on the criteria to be applied in deciding whether *firms* have met the requirements of *regulations* 2.01, 2.02 and 6.02 to 6.06.

#### Application for registration

**2.05** 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 by 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 by the *firm* that it will deal with the *Institute* in an open and co-operative manner and inform the *Institute* promptly about anything concerning the *firm* that these *regulations* require; and
- d an acknowledgement by the *firm* that none of the *Institute*, its officers, staff, members of its *Council* or *Committees* or a *monitoring unit* or the *Committees* or staff of the *Disciplinary Scheme*, 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.

Each Institute has its own application form which firms should request from the appropriate Institute.

Regulation 2.05d comes from section 48 of the 1989 Act and article 50 of the NI Order 1990.

**2.06 The *Registration Committee* may:**

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

Under regulation 2.06d, 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 refuse registration or to grant it with restrictions or conditions. Details of the review process are in regulations 9.04 to 9.06 for firms registered with the ICAEW or the ICAI. Firms registered with the ICAS should refer to regulation 9.13.

**Changes in circumstances**

**2.07 A *Registered Auditor* must tell the *Institute* 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 company auditor;**
- b if the *firm* is no longer complying with the *PII regulations* or *PII bye-laws*;**
- c of any other changes which might affect a *firm's* eligibility to be registered or its ability to conduct *audit work* or;**
- d of any change to:**
  - 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*; or**
  - 4) the name of the *audit compliance principal*.**

The eligibility criteria are set out in regulations 2.01 and 2.02 (sole practitioners, partnerships and limited liability partnerships) and 6.02 to 6.06 (additional criteria for corporate practices).

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 regulation 8.18). Therefore, firms should tell the Institute as soon as possible if they are planning any changes so that registration is not interrupted.

A firm should also, under regulation 2.07c, tell the 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.

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

### **Annual fees and charges**

**2.08**        ***Registered Auditors must pay a fee each year on 1 January. The first annual fee is due when a firm applies for registration. An application fee is also due with this first annual fee.***

**2.09**        ***Council will set the amount of the fees.***

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

**2.10**        ***The Registration Committee may charge a Registered Auditor to which its representatives have made a second or subsequent visit as a result of an earlier visit. The committee will decide how much the charge 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 further visits, although an estimate would normally be given.

**2.11**        ***If a Registered Auditor has not paid any fees under regulation 2.08, or a charge under regulation 2.10, within 60 days of the invoice date, the Institute may send a notice warning the firm that the Registration Committee may withdraw its registration.***

If the outstanding amount is not received within 30 days of the notice, the Institute will withdraw registration under regulation 8.07.

## Chapter 3

### Conduct of regulated audit work

The Act states that the Institute, as a Recognised Supervisory Body, 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, United Kingdom legislation requires the Institutes to monitor registered auditors to ensure they are complying with these regulations.

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 'Eligibility and registration'. Once registered, the 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.

The following regulations, and associated guidance, deal with many of the 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 carrying out the audit properly.***
- 3.02**      ***A Registered Auditor must act in accordance with the fundamental principles set out in the Auditing Practices Board's Auditors' Code, the ethical standards and the ethical statements issued by Council.***

The main considerations which should be followed are contained in the ethical guidance on objectivity and independence in auditing. This is included in the Members Handbook of the ICAEW and ICAI and in the Council Statements of the ICAS. Firms should refer to the ethical guidance for a fuller discussion of the matters listed below.

Situations that may threaten a firm's independence include:

- undue financial dependence on an audit client (or group);
- significant overdue fees from an audit client;
- actual or threatened litigation in relation to an audit client;
- influences from outside the audit practice, including those from associated firms;
- personal or family relationships;
- beneficial or other interests in shares or other investments in an audit client;
- beneficial interests in trusts which have investments in an audit client;
- involvement as a trustee in an audit client;
- loans to or from audit clients;
- receipt of hospitality, goods or services from an audit client for less than full value;
- provision of other services to audit clients;
- a principal or senior employee joining an audit client;
- mutual business interests;
- participation in the business affairs of an audit client;
- voting on audit appointments;
- acting as auditor for a prolonged period of time; and
- an officer or employee of an audit client who is related to an employee or principal of the firm.

The guidance referred to above includes suggestions for safeguards that may reduce threats to independence. However, the guidance does stress the need to maintain objectivity and independence.

Contracts of employment (with employees, sub-contactors 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.

It is recommended that firms monitor independence by requiring a signed statement from its principals and employees once a year and at other appropriate times, such as when a person joins the firm. Principals and employees should be encouraged to disclose any new situations that may be a potential threat to independence as soon as they arise.

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

The Auditing Practices Board's Auditors' Code is included in the APB's statement of the scope and authority of its pronouncements. The Code is a framework of fundamental principles which encapsulates the concepts that govern the conduct of audits and underlie the ethical standards and auditing standards and which guides the conduct of auditors.

### **3.03      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.

**3.04 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.**

Under regulation 3.04, an auditor must be able to show that it has considered its independence and ability to do the audit each time a new appointment or reappointment is accepted. Reappointment is usually accepted just after the current year's audit is finished, so this is the time to consider these issues. However, it may also be sensible to consider them again as part of the planning for next year's audit.

If independence is considered more than once during a single audit, only one detailed record of the factors considered need be kept. It will be sufficient when the matter is considered again to record that the same factors continue to apply (or that no new factors are relevant) and the previous conclusion is confirmed. Alternatively, only details of new or changed factors and the amended conclusion need be recorded.

It is important that a firm only accepts work that it is competent to do. The ability to perform an audit properly includes having principals or employees who have the skills needed to deal with the particular features or specialised reporting requirements of an audit client. The firm should also consider whether it has employees available to do the audit when the client needs it. Many firms plan ahead to allocate employees to particular audits. Smaller firms may have greater flexibility because individual client assignments take less time and so there is less need for detailed advance planning.

'Audit client acceptance and retention', published by the Financial Reporting and Auditing Group of the ICAEW in March 1995, provides a useful discussion of the matters a firm should consider when seeking appointment or reappointment as auditor.

**3.05 A Registered Auditor must make arrangements so that each principal and anyone the firm employs to do audit work is, and continues to be, a fit and proper person. This also applies to anyone associated with the firm and involved in its audit work.**

Guidance chapter 1 suggests how to assess the fit and proper status of principals and employees, as required by regulation 3.05. 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 tell 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.

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

- SAS 500 'Considering the work of internal audit'.
- SAS 510 'The relationship between principal auditors and other auditors'.
- SAS 520 'Using the work of an expert'.

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

Regulation 3.06 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, the overall direction of the audit and the exercise of judgement must always be in the hands of responsible individuals.

**Technical standards**

Each audit must be governed by the statements of auditing standards and the legislation under which the auditor is reporting.

**3.07**      ***A Registered Auditor must comply with the requirements of the 1985 Act, the Companies (Northern Ireland) Order 1986, the Act, and other relevant legislation.***

The requirements include:

- appointment;
- ceasing to hold an appointment; and
- the responsibilities of the auditor to make sure that financial statements on which a report is given are in accordance with the legislation.

The legislation would normally be:

- Companies Act 1985;
- Companies Act 1989;
- Companies (Northern Ireland) Order 1986;
- Companies (Northern Ireland) Order 1990;
- Companies Act 1963 of the Republic of Ireland; and
- Companies Act 1990 of the Republic of Ireland.

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

**3.08a**      ***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 and the auditing standards as applied in accordance with the explanatory and other material published therewith.

**3.08b.**      ***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 3.08c are about the audit working papers of UK and Irish registered entities that fall within the definition of ‘audit’ in these regulations.

SAS 230 (working papers) details the content of audit working papers. Other SASs (for example SAS 200 (planning)) 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.

**3.08c**      ***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 3.08b 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 3.08b, all the audit working papers created by the other firm have to be returned to the registered auditor for retention in accordance with regulation 3.08b. 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.

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 working papers of the auditor of a subsidiary company. In the United Kingdom and the Republic of Ireland the respective responsibilities of the holding company auditor and subsidiary company auditor are governed by the Act and auditing standards.



## Consultation

### **3.09**      ***A Registered Auditor must make arrangements so that all principals and employees consult where necessary, at the appropriate professional level, on ethical and technical issues. This consultation may be within the Registered Auditor's firm or with another suitable organisation.***

Many situations arise where it would be helpful for the principal or an employee to consult another professional. Some examples are given below:

- Resolving a particular problem or technical detail in an audit. In these circumstances the consultant should be someone who has the necessary specialist knowledge or experience.
- Providing evidence of objectivity if there might be a challenge or doubt about the auditor's independence. In this case, it would be important that the consultant understands the circumstances and the issues involved.
- Situations where the firm has identified the audit as 'high risk'. This could be because of the nature of the client's business, public interest in the client or other circumstances. A discussion of audit risk is given in SAS 300 (Accounting and internal control systems and audit risk assessments).

SAS 230 (Working papers) notes that auditors should document matters which are important in arriving at their audit opinion, and record the reasoning on all significant matters which require the exercise of judgement. Therefore, it is also advisable to keep written evidence of consultations.

For many firms, the consultation would usually be with another principal in the same firm. A sole practitioner or small firm may have a qualified member as an employee or may consult another registered auditor, or make use of the consultation services offered by the Institutes, a group training scheme or an independent consultant.

It may be helpful to have contacts with more than one consultant so that a firm has the widest access to others for consultation. When firms use a consultant, a written agreement is advisable. This would cover client confidentiality and ensure that each knows what is required of the other. The firm, when consulting on a specific issue, should check that the consultant is independent of the particular audit client.

The principal making the arrangements for consultation should make sure that any other principals and all employees know how the consultation process should work. It is unlikely that an exhaustive list could be produced of all the matters that may require consultation. However, it is important to give a general indication of the circumstances in which consultation should take place.

Even if external consultation takes place, the registered auditor is still responsible for the audit report.

## Audit report

### **3.10**      ***Any audit report must give the name of the firm and be signed in the firm's name as it appears in the Register. As well as any other description of the firm, the words 'Registered Auditor' or 'Registered Auditors' must appear after the signature.***

An audit report has to be signed by the firm with the added description 'Registered Auditor'. The definition of an audit report (as given in schedule 1) includes other instances where a report has to be given by a registered auditor. These reports must also include the description 'Registered Auditor' as this is also audit work.

The APB has issued two practice notes (numbers 8 and 9) on reports to be given by auditors under company legislation in the United Kingdom and the Republic of Ireland. These notes usefully list other reports required by company legislation.

Other legislation also calls for audit reports on financial statements but the entities involved are not companies. A firm may choose to sign these and other reports as a registered 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 registered 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 7.06 gives the Audit Registration Committee the power to enquire into other work undertaken by the firm.

There is no need for corporate practices which are registered auditors to add phrases such as 'for and on behalf of' to their signatures.

## **Maintaining competence**

**3.11**      ***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. In doing so, the Registered Auditor should follow all relevant material issued by the Council of the registering Institute.***

SAS 240, 'Quality control for audit work' discusses the need to direct and supervise the work delegated to individuals to make sure it is performed competently. Depending on their level of responsibility, individuals will need different levels of skill and knowledge. Therefore, the firm has to check that principals and employees are competent to do the audit work given to them.

The assessment of competence to undertake audit work begins when employees are recruited. Assessment continues throughout their careers by appraisal and appropriate training. It is advisable that everyone has a formal performance appraisal at least once a year which includes a discussion of any training needs. Training records should show how such needs are met.

Regardless of its organisation or size, a firm will be expected to show that it is complying with the regulations. Larger firms are likely to have more detailed procedures than smaller firms, with more formal recruitment, appraisal and counselling systems. However, even small firms should be able to show that, when recruiting a new employee, they have considered that person's competence to deal with the work. While a smaller firm will have a closer knowledge of an individual's work and abilities, it should still be possible to demonstrate, although in a simpler form, that the performance of each principal and employee involved in audit work has been assessed.

Additional guidance is given in part 2, chapter 2, 'Guidance on maintaining competence'. This applies to all employees and principals involved in audit work.

Responsible individuals, and employees who are members of an Institute, should also follow other guidance on continuing professional education as detailed below.

The ICAEW has issued 'Continuing professional education' guidelines on how individuals may maintain their competence. This is in the Members Handbook.

'Guidelines on continuing education' have been issued by the ICAS to its members. These recommend the type and amount of post-qualifying education which they should undertake.

The ICAI has issued guidance entitled 'Guidance on continuing professional development'.

Audit affiliates and audit regulated non-members who are also responsible individuals should follow the guidance of the registering Institute.

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

Under regulation 3.12 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.

**3.13      *A Registered Auditor must make sure all principals and employees involved in audit work are aware of and follow 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;
- the legal and other requirements relating to financial statements; and
- the procedures the firm depends on to ensure it does audit work competently.

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 SAS 240, 'Quality control for audit work', and the checks performed as part of the annual compliance review, can then reveal successful communication - or the lack of it.

## Monitoring

### 3.14 ***A Registered Auditor must monitor, at least once a year, how effectively it is complying with these regulations.***

An annual review can focus simply on the important point of whether audit work is being carried out in accordance with these regulations and SAs. 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 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;
- fit and proper status;
- competence;
- appointment and re-appointment;
- professional indemnity insurance; and
- continuing eligibility.

The second deals with 'cold' reviews of completed audit work to ensure that 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 principal's work, little may be gained from doing more. A representative sample of two or three audits for each principal should be enough.

One approach to the question of frequency is simply to decide that the work of each principal and senior employee 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 an individual principal is reviewed more frequently.

Sole practitioners, firms with only one responsible individual and other small firms may have few audit clients. So there is probably little point in reviewing the audit work for the same client each year, particularly during a period when there have been none of the changes described above. However, sole practitioners and smaller firms do face problems of change and their principals also tend to retain their own portfolios of clients for lengthy periods. This very familiarity may cause problems and so there is merit in reviewing a sample of files each year.

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 individual principals and senior employees is reviewed. However, if the work of all principals and senior employees is not reviewed each year, then it should be covered over 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 ARC.

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 principals and employees should be given the results of the monitoring exercise at the earliest opportunity. If improvements are needed, any necessary changes should be made as soon as possible. There is no need for the firm to conduct the review itself. Some firms may find it more practical and cost-effective to use a service provided by the Institute or some other organisation.

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 3 on how registered auditors can monitor their own compliance with the audit regulations.

**3.15 Each *Registered Auditor* (other than a sole practice) must appoint a *principal*, who is a *responsible individual*, as the *audit compliance principal*. A sole practitioner will be the *audit compliance principal*. The *audit compliance principal*:**

- a is responsible for monitoring that the *Registered Auditor* has complied with, and is likely to continue to comply with, these *regulations*; and**
- b is the first point of contact with the *Institute* in connection with these *regulations*.**

The role of the audit compliance principal is to be responsible for making sure that the firm complies with the audit regulations. A major part of the responsibilities is to make sure the monitoring required by regulation 3.14 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.

The audit compliance principal is also the individual that the Institute or a monitoring unit will first contact on matters related to audit regulation.

**3.16 When the *Registration Committee* has to decide if a *Registered Auditor* is complying with *regulations* 3.01 to 3.06, it must consider any relevant guidance in the *ethical standards* and any guidance issued by *Council*.**

Some of the guidance is reproduced in 'Independence and the audit' referred to earlier. Corporate practices have extra independence requirements. These are set out in regulations 6.09 and 6.10. There is other guidance in the Members Handbook of the ICAEW and ICAI and in the Council Statements of the ICAS.

**3.17 When the *Registration Committee* has to decide if a *Registered Auditor* has complied with an *auditing standard*, a *quality control standard* or *regulation* it must consider any relevant guidance in those standards, *practice notes* and these *regulations*.**

## Chapter 4

### Qualified individuals and responsible individuals

'Qualified individual' and 'responsible individual' are important terms in the audit regulations. A firm must be controlled by qualified individuals if it is to be a registered auditor. Responsible individuals are the qualified individuals who are responsible for carrying out audit work.

#### Qualified individual

A qualified individual is the holder of an appropriate qualification and a practising certificate, if a member of the ICAEW, the ICAS or the ACCA. For a member of the ICAI, an auditing certificate is needed instead.

An appropriate qualification is defined in the Acts. It can be gained by holding:

- a recognised accountancy qualification awarded by a recognised qualifying body; or
- an approved overseas or other qualification and, where required, successfully completing an additional test.

These two methods of qualification (by examination and relevant work experience) are the only ways that an appropriate qualification can now be obtained. People who were auditors under previous legislation can be 'grandfathered' and so hold an appropriate qualification:

- 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 1989 Act);
  - for Northern Ireland, **both** 1 January 1990 **and** 29 March 1993, (under the NI Order 1990);
  - for the Republic of Ireland, 31 December 1990, (under the RI 1990 Act);
- from the Department of Trade and Industry or Department of Economic Development under previous company legislation in the United Kingdom; or
- from the Minister of Enterprise and Employment under previous company legislation in the Republic of Ireland.

Under the Acts, different accountancy qualifications and overseas qualifications are recognised. However, in the United Kingdom and the Republic of Ireland each Institute's qualification is recognised.

There are transitional arrangements for members of recognised professional bodies who started training for an accountancy qualification before 1 January 1990 and obtained that qualification (and entitlement to practise) before 1 January 1996. They will also have an appropriate qualification.

If anyone is not sure about an appropriate qualification, they can obtain advice from the registering Institute by calling one of the telephone numbers listed in the introduction to the regulations.

**4.01 A member of the Institute of Chartered Accountants in England and Wales or the Institute of Chartered Accountants of Scotland who holds an *appropriate qualification* and a *practising certificate* is a *qualified individual*.**

- 4.02** A member of the Institute of Chartered Accountants in Ireland who holds an *appropriate qualification* and an *auditing certificate* is a *qualified individual*.
- 4.03** A member of the Chartered Association of Certified Accountants who holds an *appropriate qualification* and a *practising certificate* is a *qualified individual*.
- 4.04** An individual who does not satisfy the requirements of *regulations 4.01, 4.02 or 4.03* is a *qualified individual* if the individual:
- a** holds an *appropriate qualification*;
  - b** can satisfy the *Registration Committee* of similar experience of *audit work* as would be required of a member of the *registering Institute*; and
  - c** has been granted *audit affiliate* or *audit regulated non-member* status under **chapter 5** of these *regulations*.

The ICAI issues auditing certificates as evidence that a member holds an appropriate qualification. Members of the ICAI are qualified individuals if they hold an auditing certificate and are in practice.

All firms applying to be registered auditors have to be controlled by qualified individuals. For corporate practices, control has to be exercised by the shareholders and the directors. A sole practitioner must be a qualified individual (regulation 2.01).

A partner who is not a member of one of the Institutes, or the ACCA, can still be a qualified individual if he holds an appropriate qualification and is granted audit affiliate or audit regulated non-member status by the Institute registering the firm. For those who want to be registered in the United Kingdom (except Northern Ireland), that qualification must be recognised by the Department of Trade and Industry. For registration in Northern Ireland, the appropriate qualification is one that the Department for Economic Development recognises. For those registering in the Republic of Ireland, the qualification must be recognised by the Department of Enterprise and Employment. These government departments may not recognise the same qualifications as each other, but they all recognise the qualifications awarded by the Institutes.

If a firm is controlled by non-members, or has non-members as responsible individuals, it should make sure that it has valid registration for the jurisdiction in which the company is incorporated before it accepts the audit appointment. A sole practitioner who is a member of one of the Institutes, or partnerships or limited liability partnerships whose principals are all members of the Institutes or the ACCA, can audit companies incorporated in any of the jurisdictions. However, to conduct audits under the laws of the Republic of Ireland, at least one responsible individual has to be a member of the Institute which registered the firm.

## Responsible individual

A sole practitioner is a responsible individual. In all firms (including sole practices) the principals who are qualified individuals can designate principals or employees as responsible individuals. A responsible individual does not have to be a partner or director.

- 4.05** Only *responsible individuals* can be responsible for an *audit* and sign an *audit report*.
- 4.06** Those *principals* of a *Registered Auditor* who are *qualified individuals* may designate as *responsible individuals* those of its *principals* or *employees* who are:
- a** *qualified individuals*;
  - b** competent to conduct *audit work* under *regulation 3.11*; and
  - c** when undertaking *audit work*, required by the *firm* to plan and control such work and are allowed to sign *audit reports* in the name of the *firm*.

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

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 affiliate of the registering Institute.

A responsible individual must hold an appropriate qualification and a practising certificate (or equivalent), but qualified individuals may not necessarily be responsible individuals. So, in a partnership (or corporate practice), there could be qualified individuals (because they hold a practising certificate and an appropriate qualification) who may not be responsible individuals (because, for example, they specialise in tax or other practice areas).

- 4.07** Any designation in accordance with *regulation 4.06* 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.

Each Institute has its own application form which firms should request and complete.

## Chapter 5

### Audit affiliates and audit regulated non-members

A firm may be registered by a Recognised Supervisory Body as eligible to accept appointment as a company auditor under the Act only if each partner and director who controls the firm is bound by the regulations and guidance issued by the RSB.

The Institute is able to register firms in which one or more principals are not members of the Institutes or the Chartered Association of 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.

In this chapter different regulations apply according to which Institute has registered the firm. The ICAS refers to an affiliate as a 'regulated non-member'.

Different requirements apply for affiliates and regulated non-members for investment business purposes. Affiliate or regulated non-member status in one regulated area does not automatically give such status in another.

#### Section 5A Firms registered by the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants in Ireland

##### General

- 5.01** *An audit affiliate can take responsibility for audit work only if designated as a responsible individual under regulation 4.06.*
- 5.02** *The 'Regulations for audit affiliates' (issued in August 1991, as amended) no longer applies, except where any regulatory or disciplinary action is being taken against the audit affiliate by the Institute for actions taken before these regulations came into force.*

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.

The previous regulations for audit affiliates no longer apply as they have been replaced by the regulations in this chapter.

##### The granting of audit affiliate status

- 5.03** *Audit affiliate status does not give the audit affiliate any rights other than those contained in these regulations. The audit affiliate must not make any public statement that they have any such rights.*
- 5.04** *Persons applying for audit affiliate status must do so in the manner that the Registration Committee decides. To carry out its responsibilities under these regulations, the Registration Committee may make any enquiries necessary to assess the eligibility of the applicant.*

Individuals should ask the appropriate Institute for an application form.

**5.05** 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 ethical standards of the *Institute*; and
- d** has agreed to provide the *Institute* with all the information it needs.

Regulation 5.05 sets out the matters the Committee will consider when it receives an application for audit affiliate status.

Regulation 5.05d 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.

**5.06** The *Registration Committee* may:

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

**The withdrawal of audit affiliate status**

**5.07** 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** fails to pay on time any fines or costs ordered by the *Registration Committee*, *Review Committee*, *Disciplinary Committee*, *Appeal Committee* or by any committee appointed under the *Disciplinary Scheme*;
- 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 subscription 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 5.07, a person can apply for a review of the decision using the same process as for a firm (see chapter 9).

## The cessation of audit affiliate status

### 5.08 *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 5.09* 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 5.09* applies;
- c the *audit affiliate* is an individual and has a bankruptcy order made against him;
- d the *audit affiliate* is a *body corporate* incorporated in the United Kingdom and one of the following occurs in relation to it:
  - 1) a voluntary arrangement under Part I of the Insolvency Act 1986 or the Insolvency (Northern Ireland) Order 1989 is approved;
  - 2) an Administration Order under Part II of the Insolvency Act 1986 or the Insolvency (Northern Ireland) Order 1989 is made;
  - 3) an administrative receiver is appointed;
  - 4) a winding-up order is made;
  - 5) a resolution is passed for a creditors' voluntary winding-up;
  - 6) a resolution is passed for a members' voluntary winding-up;
  - 7) a creditors' meeting under Section 95 of the Insolvency Act 1986 or Article 81 of the Insolvency (Northern Ireland) Order 1989 is held; or
- e the *audit affiliate* is a *body corporate* from outside the United Kingdom and an event occurs which appears to the Committee to have the same effect as one of the events in *regulation 5.08d*.

Regulation 5.08 describes a number of situations where audit affiliate status is automatically lost.

For the purposes of this regulation, a body corporate includes a limited liability partnership. Any reference in the above legislation to a company will include references to a limited liability partnership and any reference to a director will include references to a member of a limited liability partnership.

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

- a the *firm* in which the *audit affiliate* is a *principal* merges with or is acquired by another *Registered Auditor* registered with 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 with the same *registering Institute*.

**This *regulation* will only apply if the *Institute* is told within ten *business days*. If not, disciplinary action may be taken and recognition as an *audit affiliate* may be withdrawn.**

An audit affiliate will be a principal in a registered auditor and if that relationship ceases, so does the audit affiliate status. In the circumstances given in regulation 5.09, audit affiliates may keep their audit affiliate status. However, this is only if the new firm is registered with the same 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 Institute as soon as, or before, they leave the old firm.

Firms must also make sure that the majority control by qualified individuals is still maintained (see regulations 2.02, 6.02 and 6.03).

### **Changes in circumstances**

- 5.10** An *audit affiliate* must tell the *Institute* within ten *business days* of any changes that are relevant to the matters considered by the *Registration Committee* under *regulation 5.05*.

### **Review of regulatory decisions**

- 5.11** An *audit affiliate* may apply for a review of a decision made under *regulation 5.06* or *5.07* using the same procedures as a *Registered Auditor* in chapter 9.

### **The implementation of orders**

- 5.12** An order made under *regulation 5.06* will come into effect as soon as notice of it is served on the *audit affiliate*. An order made under *regulation 5.07* 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 9.04*, the order will be postponed until an order under *regulation 9.05* has been put into effect; or
  - b** if the *audit affiliate* appealed under *regulation 9.07*, the order will be postponed until an *Appeal Committee* order under *regulation 9.08* has been put into effect.

If an affiliate applies for a review, then an order under regulation 5.07 is stayed pending the outcome of the review. An order under regulation 5.06 is not stayed.

## The serving of notice

- 5.13** A notice, order or other document which needs to be served on an *audit affiliate* under these *regulations* will be delivered by hand, or sent by fax or post.
- a** If delivered by hand, it must be handed to the *audit affiliate* and service will take effect immediately.
  - b** if sent by fax, it must be sent to the latest fax number given by the *audit affiliate* and service will take effect immediately.
  - c** if sent by post, it must be sent to the latest address given by the *audit affiliate* and service will take effect two business days after posting.

## Fees

- 5.14** *Audit affiliates* must pay a fee each year on 1 January. 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.
- 5.15** *Council* will set the amount of the fees.

If an audit affiliate's application is unsuccessful, the fees will be refunded.

## Disciplinary arrangements

- 5.16** The disciplinary procedures of the *Institute* will apply to breaches of these *regulations* by an *audit affiliate* in the same way as they apply to breaches by a member.

Each Institute has a members' handbook which includes details of the disciplinary bye-laws.

- 5.17** An *audit affiliate* will be liable to disciplinary action under these *regulations* for any failure to observe and uphold the ethical standards of the *Institute*.
- 5.18** 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*.

**Section 5B**  
**Firms registered by the**  
**Institute of Chartered Accountants of Scotland**

**General**

- 5.19**     **An *audit regulated non-member* who is not a *responsible individual* (see chapter 4) cannot take responsibility for *audit work* as a *principal*.**
- 5.20**     **The 'Bye-laws for regulated non-members' (issued in August 1991, as amended) no longer applies except where any regulatory or disciplinary action is being taken against the *audit regulated non-member* by the *Institute* for actions before these *regulations* came into force.**

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

The previous bye-laws for audit regulated non-members no longer apply as they have been replaced by the regulations in this chapter.

**The granting of recognition as an audit regulated non-member**

- 5.21**     **Recognition as an *audit regulated non-member* does not give the *audit regulated non-member* any rights other than those contained in these *regulations*. *Audit regulated non-members* must not make any public statements that they have any such rights.**
- 5.22**     **Persons applying for recognition as *audit regulated non-members* must do so in the manner that the *Registration Committee* decides. To carry out its responsibilities under these *regulations*, the *Registration Committee* may make any enquiries necessary to assess the eligibility of the applicant.**

An application form to become an audit regulated non-member can be obtained from the Institute.

- 5.23**     **The *Registration Committee* will not recognise an applicant as an *audit regulated non-member* unless it is satisfied that the applicant:**
- a**     **is a fit and proper person to be recognised as an *audit regulated non-member*;**
  - 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 ethical standards of the *Institute*; and**
  - d**     **has agreed to provide the *Institute* with all the information it needs.**

Regulation 5.23 sets out the matters the committee will consider when it receives an application for recognition as an audit regulated non-member.

**5.24** The *Registration Committee* may:

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

**The withdrawal of recognition as an audit regulated non-member**

**5.25** The *Registration Committee* may withdraw recognition as an *audit regulated non-member* if, in the opinion of the committee, the *audit regulated non-member*:

- a** ceases to be a fit and proper person;
- b** fails to pay on time fines or costs ordered by the *Registration Committee*, *Discipline Committee*, *Appeal Committee* or by any committee appointed under the *Disciplinary Scheme*;
- c** becomes subject to a decision by the *Discipline Committee* that they should no longer be an *audit regulated non-member*;
- d** fails to pay the annual fee within 30 days of the due date; or
- e** fails or ceases to comply with any of these *regulations* and, in the circumstances, withdrawal is justified.

If recognition as an audit regulated non-member is withdrawn under regulation 5.25, a person can apply for a review of the decision by the same process as for a firm (see chapter 9).

**The cessation of recognition as an audit regulated non-member**

**5.26** Recognition as an *audit regulated non-member* will end if:

- a** the *firm* in which the *audit regulated non-member* is a *principal* ceases to be a *Registered Auditor*, except where *regulation 5.27* applies;
- b** the *audit regulated non-member* ceases to be a *principal* in the *Registered Auditor* to which the recognition as an *audit regulated non-member* status related, except where *regulation 5.27* applies;
- c** the estate of an *audit regulated non-member* who is an individual has been sequestrated or becomes subject to a bankruptcy order;
- d** where the *audit regulated non-member* is a *body corporate* in the United Kingdom, one of the following occurs in relation to it:
  - 1)** a voluntary arrangement for the company under Part I of the Insolvency Act 1986 or the Insolvency (Northern Ireland) Order 1989 is approved;

- 2) **an Administration Order under Part II of the Insolvency Act 1986 or the Insolvency (Northern Ireland) Order 1989 is made;**
  - 3) **an administrative receiver is appointed;**
  - 4) **a winding up order is made;**
  - 5) **a resolution is passed for a creditors' voluntary winding-up;**
  - 6) **a resolution is passed for a members' voluntary winding-up;**
  - 7) **a creditors' meeting under Section 95 of the Insolvency Act 1986 or Article 81 of the Insolvency (Northern Ireland) Order 1989 is held; or**
- e **the *audit regulated non-member* is a *body corporate* from outside the United Kingdom and an event occurs which appears to have the same effect as one of the events in *regulation 5.26d*.**

Regulation 5.26 describes a number of situations where recognition as an audit regulated non-member is automatically lost.

For the purposes of this regulation, a body corporate includes a limited liability partnership. Any reference in the above legislation to a company will include references to a limited liability partnership and any reference to a director will include references to a member of a limited liability partnership.

**5.27 Recognition as an *audit regulated non-member* will not end under *regulation 5.26a* or *5.26b* if:**

- a **the *firm* in which the *audit regulated non-member* is a *principal* merges with or is acquired by another *Registered Auditor* registered with the same *registering Institute*; or**
- b **the *audit regulated non-member* ceases to be a *principal* in one *Registered Auditor* and immediately becomes a *principal* in another *Registered Auditor* registered with the same *registering Institute*;**

**This *regulation* will only apply if the *Institute* is told within ten *business days*. If not, disciplinary action may be taken and recognition as an *audit regulated non-member* may be withdrawn.**

An audit regulated non-member must be a principal in a registered auditor. If that relationship ceases so does the recognition as an audit regulated non-member, unless one of the exceptions in regulation 5.27 applies and the Institute has been informed. If the audit regulated non-member will not be joining the new firm within ten business days, they need to get advice from the Institute as soon as, or before, they leave the old firm.

The firms involved must also make sure that the majority control by qualified individuals is still maintained (see regulations 2.02, 6.02 or 6.03).

### **Changes in circumstances**

**5.28** An *audit regulated non-member* must tell the *Institute* within ten *business days* of any changes that are relevant to the matters considered by the *Registration Committee* under *regulation 5.23*.

#### Review of regulatory decisions

**5.29** An *audit regulated non-member* may apply for a review of a decision made under *regulation 5.24* or *5.25* using the same procedures as a *Registered Auditor* in chapter 9.

#### The implementation of orders

**5.30** An order made under:

- a *regulation 5.24* will come into effect as soon as notice of it is served on the *audit regulated non-member*; or
- b *regulation 5.25* will come into effect ten business days after notice of it is served on the *audit regulated non-member*, except:
  - 1) if the *audit regulated non-member* has applied for a review under *regulation 9.13b*, the order will be postponed until an order under *regulation 9.13d* has been put into effect; or
  - 2) if the *audit regulated non-member* appealed under *regulation 9.17*, the order will be postponed until an *Appeal Committee* order under *regulation 9.18* has been put into effect.

#### The serving of notice

**5.31** A notice, order or other document which needs to be served on an *audit regulated non-member* under these *regulations* will be delivered by hand, or sent by fax or post.

- a If delivered by hand, it must be handed to the *audit regulated non-member* and service will take effect immediately.
- b If sent by fax, it must be sent to the latest fax number given by the *audit regulated non-member* and service will take effect immediately.
- c If sent by post, it must be sent to the latest address given by the *audit regulated non-member* and service will take effect two business days after posting.

#### Fees

**5.32** *Audit regulated non-members* must pay a fee each year on 1 January. The first annual fee is due when an application is made for *audit regulated non-member* status. An application fee is also due with this first annual fee.

**5.33** *Council* will set the amounts of the fees.

If an *audit regulated non-member's* application is unsuccessful, the fees will be refunded.

#### Disciplinary arrangements

**5.34** The disciplinary arrangements of the *Institute* will apply to an *audit regulated non-member* in the same way as they apply to a member.

The details of the Institute's disciplinary arrangements are set out in the Rules.

**5.35** The terms 'defender' and 'member' in the disciplinary arrangements of the *Institute* include an *audit regulated non-member*.

**5.36** An *audit regulated non-member* will be liable to disciplinary action under these *regulations* for any failure to observe and uphold the ethical standards of the *Institute*.

**5.37** Persons who have ceased to be *audit regulated non-members* will remain liable to disciplinary action under these *regulations* for any acts or omissions during the period in which they were recognised as *audit regulated non-members*.

## Chapter 6

### Corporate practices

The Act allows auditors to incorporate, either as limited or unlimited companies. This chapter sets out the requirements that only apply to a corporate practice. Once registered, a corporate practice is a registered auditor and is bound by the other audit regulations as is any other registered auditor.

To help corporate practices which want to become registered auditors, the Institute has produced a model article for inclusion in the Articles of Association. Advice can be obtained from the registering Institute by calling one of the telephone numbers listed in the introduction to the regulations.

The different legal framework in the Republic of Ireland does not allow corporate practices to act as auditors to companies incorporated in the Republic of Ireland, irrespective of the registering Institute. The Institutes can each register corporate practices as auditors, but those practices can only audit companies incorporated in the United Kingdom.

Regulation 3.10 gives the requirements for signing an audit report. If the registered auditor is a corporate practice it should still sign audit reports in the name of the firm. There is no need to add anything else like 'for and on behalf of'.

#### Eligibility

- 6.01**     ***A corporate practice may be registered if the Registration Committee is satisfied that it meets the requirements of regulation 2.01 and regulations 6.02 to 6.06.***
- 6.02**     ***At least a majority of the shareholders' voting rights must be held by qualified individuals, Registered Auditors or a combination of both.***
- 6.03**     ***At least a majority of the voting rights in the board of directors, committee or other management body must be held by qualified individuals, Registered Auditors or a combination of both.***

If a registered auditor which is a partnership wishes to hold shares in a registered auditor which is a corporate practice, the partnership must satisfy itself that it can legally hold shares.

- 6.04**     **Each *director* must be:**
- a**       **a member of one of the *Institutes*;**
  - b**       **a member of the Chartered Association of Certified Accountants;**
  - c**       **an *audit affiliate* or *audit regulated non-member* of the *registering Institute*; or**
  - d**       **a *Registered Auditor*.**
- 6.05**     **Each *responsible individual* must be a *qualified individual*.**
- 6.06**     **The Articles of Association of the *corporate practice* must:**
- a**       **require its shareholders to tell it of any changes in the number of shares held in the *corporate practice*, whether the shares are held directly or indirectly;**

- b** enable the board of *directors* to require shareholders to supply information about their shareholdings in the previous three years;
- c** enable the board of *directors* to request 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;
- d** enable the board of *directors* to deprive a shareholder of the right to vote if the information asked for in *regulation 6.06b* is not given in the time specified in the request; and
- e** enable the board of *directors* to deprive a shareholder of the right to vote if the corporate practice's application for registration is refused under *regulation 2.06b*, or registration has been withdrawn under *regulation 8.07a*, and the *corporate practice* has been told that the refusal or withdrawal relates to any shareholding.

Sub-paragraphs (b) and (c) mean that directors must have the power to ask for information about the owners of the company's shares and about anyone else with an interest in the shares.

Sub-paragraph (d) means that if the directors ask for information about a shareholding and it is not provided, they must have the power to prevent the shareholder from voting.

Sub-paragraph (e) allows the directors to deprive the shareholders of the right to vote if the Committee has refused or withdrawn registration because of some matter relating to those shares.

The Institute has produced a model article for corporate practices to include in their Articles of Association. If this is used, the corporate practice will be taken to comply with regulation 6.06.

### **Application for registration**

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

- a** the information asked for in *regulation 2.05* (contents of application form);
- b** the name and address of each person who is a *director*; and
- c** the number of shares, name and address of each shareholder and anyone who has any interest in the shares.

### **Changes in circumstances**

**6.08** *A Registered Auditor which is a corporate practice must inform the Institute within ten business days of:*

- a** any of the events referred to in *regulation 2.07* (details of changes in circumstances);
- b** any change in the name or address of a *director*;

- c any change in the name or address of a shareholder or anyone with any interest in the shares; and
- d any change in the number of shares held by a shareholder or in the number of shares in which anyone has an interest.

A corporate practice must keep the Institute informed of the same matters as other firms have to, as well as changes in shareholdings.

## Independence

**6.09** *A Registered Auditor which is a corporate practice must not accept or continue an audit appointment if the audit client is:*

- a a shareholder in the *corporate practice* or in any *associated undertaking* of the *corporate practice*;
- b anyone whose interest in shares in the *corporate practice* has been notified to it under *regulations 6.06a, 6.06b or 6.06c*;
- c anyone the *corporate practice* knows has an interest in its shares or in any *associated undertaking* of the *corporate practice*; or
- d an *associated undertaking* of a shareholder in *regulation 6.09a*.

To retain its independence, a registered auditor which is a corporate practice must not be the auditor of any of its shareholders. The practice will be notified of changes in its shareholders by regulation 6.06 and should use this information to reassess its independence.

**6.10** *Before a Registered Auditor which is a corporate practice accepts an audit appointment for the first time, it must be able to demonstrate that the potential audit client holds no shares or interests in shares in the Registered Auditor or in any associated undertaking of the Registered Auditor.*

A corporate practice must make sure that new audit clients are not shareholders in the firm. It may be able to show this because its shares are held by people who work in the firm and the transfer of shares is restricted to that group of people. If not, the firm will have to get written confirmation from the potential audit client before accepting the appointment.

## Chapter 7

### 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 secretariat. But any decision not to allow registration, or to restrict, suspend or withdraw registration must be made by the committee, except in the special circumstances outlined in regulation 7.05.

A firm generally has the right to seek a review of a decision. Details are in chapter 9.

#### The Registration Committee

- 7.01**      **The *Council* will appoint an Audit Registration Committee (the *Registration Committee*).**
- 7.02**      **The *Registration Committee* must:**
- a**      **consist of at least eight people;**
  - b**      **include at least two members who are not accountants; and**
  - c**      **have a quorum of three members.**
- 7.03**      **The *Registration Committee* is responsible for:**
- a**      **granting applications for registration;**
  - b**      **granting applications for 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 2.01*, *2.02* and *regulations 6.02* to *6.06*;**
  - 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 an applicant for registration (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* 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, in any manner it decides, its orders or decisions if it considers this appropriate;
- m** compiling and maintaining the *Register* and supplying information to the Registrar of Companies in the Republic of Ireland; and
- n** granting applications for responsible individual status, with or without restrictions or conditions or rejecting such applications.

Regulation 7.03 sets out the powers and functions of the Committee, which include the powers under regulations 7.03j and 7.03k to make monitoring visits to firms.

Each Institute deals with the procedures for regulatory penalties differently, as shown in chapter 10 'Disciplinary arrangements'.

**7.04** Except where *regulation 7.05* applies, the *Registration Committee* may delegate its duties to sub-committees, the *secretariat*, a *monitoring unit*, or another duly appointed agent.

The committee can delegate many of its powers except in the situations set out in regulation 7.05.

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

- rejecting applications for registration under *regulation 2.06b*;
- granting applications for registration subject to restrictions under *regulation 2.06c*;
- rejecting applications for *responsible individual* status under *regulation 4.07*;
- granting applications for *responsible individual* status subject to restrictions under *regulation 4.07*;
- rejecting applications for *audit affiliate* or *audit regulated non-member* status under *regulation 5.06b* or *regulation 5.24b*;
- granting applications for *audit affiliate* or *audit regulated non-member* status subject to restrictions under *regulation 5.06c* or *5.24c*;
- withdrawing *audit affiliate* or *audit regulated non-member* status under *regulation 5.07a* or *5.07e*, or *regulation 5.25a* or *5.25e*;
- imposing restrictions on registration under *regulation 8.01*;
- withdrawing registration under *regulations 8.07a*, *8.07g*, *8.07h*, or *8.07i*;
- suspending a *firm's* registration under *regulation 8.08*; or
- proposing a *regulatory penalty* under *regulation 10.02*;

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 7.04 allows the committee to delegate some of its duties to the secretariat. Duties that may be delegated include withdrawing registration under regulations:

- 8.07b, non-compliance with the PII regulations;
- 8.07c, failure to submit an annual return;
- 8.07d, failure to pay fees;
- 8.07e, failure to pay review costs; and
- 8.07f, failure to pay disciplinary costs.

However, regulation 7.05 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 or audit regulated non-member status under regulations 5.07b to 5.07d and regulations 5.25b to 5.25d may also be delegated.

**7.06 In carrying out its responsibilities under regulation 7.03, the Registration Committee, any sub-committee, the secretariat, 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 7.06 gives the committee (or its delegated agents) power to call for information from a firm to help the committee carry out its functions. Requests can be to all firms on a routine basis through annual returns, or specific to individual firms.

This regulation also allows the committee to look at non-regulated audit work, or other work where the firm has signed a report as a registered auditor. This is particularly so where a firm has little or no regulated audit work but is signing other reports as a 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.

**7.07 All information obtained under regulation 7.06 will be confidential but may be disclosed by the Institute 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 for the purpose of public reporting responsibilities.**

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

**7.08 A firm which is no longer a Registered Auditor will continue to be subject to regulations 7.03i, 7.03k and 7.06 if the enquiries or information relate to any period in which the firm was registered.**

**7.09 In carrying out its duties under regulation 7.03, the Registration Committee can consider any disciplinary findings, orders, pending investigations or any other information concerning or affecting the fit and proper status of any qualified individual, 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 partnership, any matter relating to any of the *partners*;
- c** if a *partner* is a *body corporate*, any matter relating to any:
  - 1) *director* or *controller* of that *body corporate*;
  - 2) other *body corporate* in the same *group* as the *body corporate*; or
  - 3) other *directors* or *controllers* of *bodies corporate* in that *group*;
- d** in the case of a *corporate practice*, any matter relating to any:
  - 1) *director* or *controller* of that *corporate practice*;
  - 2) person having any interest in shares of the *corporate practice*;
  - 3) other *body corporate* in the same *group* as the *corporate practice*; or
  - 4) other *directors* or *controllers* of *bodies corporate* in that *group*.
- e** in the case of a limited liability partnership, any matter relating to any member of the limited liability partnership;

Regulation 7.09 allows the 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 partners or directors. It may include employees and associates of the firm. In the case of a corporate partner or corporate firm, the scope extends to any director or controller, other group companies, and directors and controllers of those companies.

**7.10** Any previous disciplinary finding, conviction, decision, sentence or judgement (including criminal and civil court decisions) will not be re-opened before the *Registration Committee*, the *Review Committee* or *Panel* or the *Appeal Committee*.

#### Notification to committees

- 7.11** The *Registration Committee* must tell the *Investigation Committee* about any fact or matter which:
- a** suggests that a *Registered Auditor*, member or *audit affiliate* or *audit regulated non-member* may be liable to disciplinary action under these *regulations*, the *Bye-laws* or *Rules*, or any other *regulations* or *bye-laws* of the *Institute*; and
  - b** in the opinion of the *Registration Committee* needs to be investigated.
- 7.12** The *Investigation Committee* must tell 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*.

Under regulations 7.11 and 7.12, information can be exchanged between the Institute departments responsible for regulation and discipline.

#### The Review Committee and Panel

**7.13** Certain matters decided by the *Registration Committee* may be considered afresh by the *Review Committee* (as described in *regulation 9.04*) or *Panel* (as described in *regulation 9.13*). It may then carry out any of the responsibilities of the *Registration Committee* under *regulation 7.03* and may make any order that the *Registration Committee* may make. In carrying out these duties, *regulation 7.06* applies to the *Review Committee* or *Panel* as it applies to the *Registration Committee*.

Firms registered by the ICAEW and the ICAI can ask the Review Committee to reconsider a Registration Committee decision. This request must be made within a specified time period. Regulations 9.04 to 9.06 give further details of how the review process works.

Firms registered by the ICAS can apply for a hearing under regulation 9.13.

### **The Appeal Committee**

**7.14** Appeals against orders 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 9.

For firms registered by the ICAEW and the ICAI, detailed procedures are given in regulations 9.07 to 9.09. Regulations 9.17 to 9.19 give the procedures for firms registered by the ICAS. Regulations 9.08 and 9.18 list the orders that the Appeal Committee can make.

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

### **The procedures of the committees**

**7.15** Subject to the *Act*, the *Bye-Laws* or *Rules* 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 Recognised Supervisory Body 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.

## Chapter 8

### Regulatory action, cessation and withdrawal of registration

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

Regulatory decisions come into effect as set out in regulations 8.22 to 8.25.

A firm can ask for a review of a decision made by the Registration Committee and this is dealt with in chapter 9. A firm must apply for a review within ten days of the decision being given to the firm.

This chapter also explains the circumstances in which a firm will automatically lose its registration. There are safeguards against this, as described in regulations 8.13 to 8.20.

#### Restrictions and conditions

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

- a any of the circumstances mentioned in *regulation 8.07a to 8.07f* 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; or
- d being registered or continuing *audit work* without restrictions or conditions could adversely affect an *audit client* or any other person.
- e it is appropriate to do so to ensure that *audit work* is undertaken, supervised and managed effectively.

**8.02** The *Registration Committee* may at any time vary or end an order made under *regulation 8.01*.

The committee may place restrictions or conditions on how a firm carries out its audit work. These could be:

- against the firm, for example that it cannot accept any new audits or particular types of audits;
- against a partner, for example that a particular partner can no longer be a responsible individual; or
- that an employee can no longer be involved in audit work.

Other examples could be that a firm should change its procedures, or have 'cold reviews' of audit files by another registered auditor.

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.

#### The cessation of registration

- 8.03**      **A *firm* can no longer be a *Registered Auditor* if:**
- a**      **the *Registration Committee* accepts an application from the *firm* to cancel its registration;**
  - b**      **the *firm* no longer exists; or**
  - c**      **the *Registration Committee* withdraws registration under *regulation 8.07*.**

**8.04**      **If a *Registered Auditor* breaks a *regulation*, or a restriction or condition imposed under *regulation 2.06c* or *regulation 8.01*, the *Registered Auditor* may still accept audit appointments provided its registration has not been withdrawn or suspended.**

Regulation 2.06c concerns granting registration with a restriction or condition and regulation 8.01 is about registration continuing with a restriction or condition.

Regulation 8.04 means that failing to comply with these regulations does not automatically cause a firm to lose its registration. Registration can only be lost as described in regulation 8.03. However, a firm must tell the committee about any matter that may or has already led to a failure to meet the eligibility criteria.

A firm may ask for a review if it is to lose registration under regulation 8.03c. Withdrawal at the firm's request, or because the firm no longer exists, cannot lead to a review.

If a firm which is no longer registered wishes to register again it can apply in the normal manner.

**8.05**      **The *Registration Committee* may require a *firm* which is no longer registered to provide evidence that it has resigned from all *audit* appointments.**

The committee may wish to satisfy itself that a firm, once de-registered, no longer has any audit clients.

**8.06**      **If it is no longer registered, a *firm* must return its certificate of registration to the *registering Institute*.**

The ICAS does not issue certificates of registration.

### **The withdrawal of registration**

- 8.07**      **The *Registration Committee* can withdraw a *firm's* registration if:**
- a**      **it considers that the *firm* no longer meets one or more of the eligibility requirements of *regulation 2.01*, *2.02* (additional criteria for partnerships and limited liability partnerships), or *6.02* to *6.06* (additional criteria for *corporate practices*));**
  - b**      **it considers that the *firm* is not complying with the *PII regulations* or *PII by-laws*;**
  - c**      **the *firm* is over 30 days late submitting the required returns or reports;**

- d the *firm* has not paid the annual fees due under *regulation 2.08* or a charge due under *regulation 2.10* (charge for a monitoring visit) within 30 days of the service of a notice under *regulation 2.11*;
- e the *firm* has not paid the costs in the time set by the *Review Committee* or *Panel* under *regulation 9.06* or *9.16*;
- 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 by any committee appointed under the *Disciplinary Scheme*;
- g it considers that the *firm* has not complied with any restriction or condition under *regulation 8.01* or any written undertaking that the *firm* has given to the *Institute*;
- h it considers that the *firm* has not complied with any other *regulation* and, in the circumstances, withdrawal is justified; or
- i it considers that the continued registration of the *firm* may adversely affect an *audit client* or any other person.

The Registration Committee can, under regulation 7.04, delegate its power to withdraw registration in the cases that come under paragraphs (b) to (f) of regulation 8.07. However, under regulation 7.05, only the committee can withdraw a firm's registration on the grounds of paragraphs (a), (g), (h) and (i) of regulation 8.07.

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.

## Suspension

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

- a any of the circumstances mentioned in *regulation 8.07a* to *8.07g* 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.

**8.09** 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 can sign *audit reports* only with the permission of the *Registration Committee*.

**8.10** The *Registration Committee* can vary or end an order made under *regulation 8.08*.

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.

### **Urgent orders**

- 8.11** The *Registration Committee* may impose restrictions or conditions under *regulation 8.01* or suspend a *firm's* registration under *regulation 8.08*. These can be done without giving notice to the *firm* if the committee considers that a delay might adversely affect an *audit client* or any other person. An order made by the committee under this *regulation* comes into effect when made.
- 8.12** *Regulation 8.11* is subject to the *Registration Committee* allowing the *firm* an opportunity to make oral or written representations within ten *business days* of the order being made. Having considered any representations the committee may:
- a** end the order; or
  - b** continue the order.

Regulation 8.11 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, a firm can ask for a review of an urgent order under regulation 9.04 or 9.13. However, the order comes into force when it is made (see regulation 8.24) and is not lifted if a review is requested.

### **Force majeure**

- 8.13** If it is impossible or impractical for a *Registered Auditor* to comply with any of these *regulations*, it must tell the *secretariat* in writing. This must be within ten *business days* of the situation arising. The notification must say what has happened and the action the *Registered Auditor* proposes to take.
- 8.14** If the *Registration Committee* thinks that the *Registered Auditor* is taking all practical steps to relieve the situation, it may grant a dispensation from the requirement to comply with any *regulation*. The dispensation will last until the *Registered Auditor* can comply.
- 8.15** The dispensation under *regulation 8.14* will not be granted for more than 90 days starting from the date the situation arose.
- 8.16** The *Registration Committee* will not grant a dispensation under *regulation 8.14* unless the *Registered Auditor* can satisfy the committee that its continued registration during the dispensation period would not be against the public interest.

### **Dispensation**

- 8.17** If a *Registered Auditor* cannot meet one or more of the eligibility requirements of *regulation 2.01* or *2.02* (additional criteria for partnerships and limited liability partnerships), or *regulations 6.02* to *6.06* (additional criteria for *corporate practices*), it must tell the *Registration Committee* in writing. This must be within ten business days

of the situation arising. The notification must say what has happened and the action which the *firm* proposes to take.

**8.18** The *Registration Committee* will review the information provided under *regulation 8.17*. If the committee considers that the steps being taken will remedy the position, it may grant the *firm* a dispensation from the requirement to comply with *regulation 2.01* or *2.02*, or *regulations 6.02* to *6.06*.

**8.19** The dispensation will not last for more than 90 days, starting from the date that the situation first arose. The period will depend on how long the *Registration Committee* considers the *firm* will need to remedy the situation.

**8.20** The *Registration Committee* will not grant a dispensation under *regulation 8.18* unless the *firm* 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 is given by United Kingdom law and the committee cannot extend it. If the situation that gave rise to the dispensation is not put right in the time allowed, the firm's registration will end.

### Continuing responsibility

**8.21** If a *firm* is no longer a *Registered Auditor*, disciplinary action may still be taken for any failure to comply with these *regulations* during the time it was registered. A *firm* is also liable to disciplinary action after it is no longer registered if it fails to comply with any *regulation* having a continuing effect. The *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 8.21 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. Finally, de-registering does not remove the firm's obligation to pay outstanding fees.

### The implementation of orders

**8.22** An order made under *regulations 2.06, 4.07, 8.08, 9.08* or *9.18* will come into effect as soon as notice of it is served on the *firm*.

The regulations quoted in regulation 8.22 relate to the following:

- regulation 2.06 deals with the grant or refusal of an application;
- regulation 4.07 deals with the grant or refusal of responsible individual status;
- regulation 8.08 deals with the suspension of a firm's registration; and
- regulations 9.08 and 9.18 deal with Appeal Committee decisions.

**8.23** An order made under *regulations 8.01, 8.07, 8.14* or *8.18* will come into effect ten *business days* after notice of it is served on the *firm* or any later time that the committee specifies, except:

- a if a *firm* has applied for a review or hearing under *regulation 9.04* or *9.13b*, the order will be postponed until an order under *regulation 9.05* or *9.13d* has been put into effect; or

- b** if a *firm* has appealed under *regulation 9.07* or *9.17*, the order will be postponed until an *Appeal Committee* order under *regulation 9.08* or *9.18* has been put into effect.

Except for decisions made under regulation 8.22, decisions come into effect ten business days after the firm has been given the decision. However, the decisions listed in regulation 8.23 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 8.23 relate to the following:

- conditions or restrictions imposed under regulation 8.01;
- withdrawal of a firm's registration under regulation 8.07; and
- dispensations given under regulation 8.14 and 8.18.

**8.24** An order made under *regulation 8.11* to impose restrictions or conditions under *regulation 8.01*, or to suspend a *firm* under *regulation 8.08*, will come into effect when made by the *Registration Committee*.

Urgent orders made under regulation 8.11 come into effect as soon as they are made by the committee. A firm is then told about the order and can make representations to the committee under regulation 8.12.

#### The serving of notice

**8.25** A notice or any other document to be served under these *regulations* will be delivered by hand, or sent by fax or post.

- a** If delivered by hand, it must be handed to a *principal* and service will take effect immediately.
- b** If sent by fax, it must be sent to the latest fax number given by the *firm* and service will take effect immediately.
- c** If sent by post, it must be sent to the latest address given by the *firm* and service will take effect two business days after posting.

## Chapter 9

### 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 and audit regulated non-members.

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

#### Section 9A Firms registered by the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants in Ireland

#### Representation before committees

**9.01** Only the following can attend a meeting of the *Registration Committee*:

- a** members of the *Registration Committee*;
- b** the secretary to the committee;
- c** any member of the *secretariat* appointed 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.

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

**9.03** The *Registration Committee*, the *Review Committee* and the *Appeal Committee* may ask the *firm*, the *Institute*, a *monitoring unit*, any agent of the *Institute*, or the Professional Conduct Department to clarify relevant points. The *firm* must be given the opportunity to comment on any clarification made by others.

#### The review of regulatory decisions

A firm that is dissatisfied with a decision listed in regulation 9.04 can apply for a review. A decision under regulation 5.07, 8.01, 8.07, 8.14 or 8.18 is postponed until the Review Committee's decision has been put into effect.

**9.04** Within ten *business days* of the *Registration Committee* serving an order against a *firm*, the *firm* can apply to the *Review Committee* for a review of the order. The *firm* must apply in writing to the *Institute*. This applies to the following *regulations*:

<i>regulation 2.06b</i>	- refusing to grant registration;
<i>regulation 2.06c</i>	- granting of registration with conditions or restrictions;
<i>regulation 4.07</i>	- refusing to grant responsible individual status or granting such status subject to conditions or restrictions;
<i>regulation 5.06b</i>	- refusing to grant audit affiliate status;
<i>regulation 5.06c</i>	- granting audit affiliate status with conditions or restrictions;
<i>regulation 5.07</i>	- withdrawing audit affiliate status;
<i>regulation 8.01</i>	- imposing restrictions or conditions;
<i>regulation 8.07</i>	- withdrawing registration;
<i>regulation 8.08</i>	- suspending registration;
<i>regulation 8.11</i>	- an urgent order;
<i>regulation 8.14</i>	- granting a dispensation from the <i>regulations</i> ; or
<i>regulation 8.18</i>	- granting a dispensation from the eligibility criteria.

Regulations 8.22 to 8.25 explain when orders come into effect.

**9.05** A meeting of the *Review Committee* will be arranged as soon as is practical after a *firm* has applied under *regulation 9.04*. The *Review Committee* will consider the matter afresh and will hear new material put forward by the *firm*. The *Review Committee* can make any order which the *Registration Committee* could have made.

**9.06** The *Review Committee* can order a *firm* or an *audit affiliate* to contribute to the costs of the review.

The *Review Committee* has the same powers as the *Registration Committee* when making orders against firms. It can impose the same, more severe or less severe orders. It can also award costs against a firm. Costs are likely to be awarded if, for example, the firm 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 a firm 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 9.07*. On appeal, the decision of the *Review Committee* is postponed until the *Appeal Committee* confirms or varies the decision (see *regulation 8.23*).

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 a firm.

- 9.07** Within ten *business days* of the *Review Committee* serving an order against a *firm* under *regulation 9.05* the *firm* 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 *Review Committee*:
    - 1) was wrong in law;
    - 2) wrongly interpreted any relevant *regulation, Bye-law, auditing standard* or associated guidance; or
    - 3) did not comply with these *regulations*, or procedures decided by the *Review Committee* under *regulation 7.15*;
  - 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;
  - 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 8.22 to 8.25 explain when orders come into effect.

- 9.08** As soon as is practical after notice of appeal has been received under *regulation 9.07*, the *Appeal Committee* will consider the appeal and may:
- a allow the appeal;
  - b impose a less severe order;
  - c send the matter back to the *Review Committee* to be considered again; or
  - d dismiss the appeal.
- 9.09** If the *Appeal Committee* sends a matter back to the *Review Committee* under *regulation 9.08* then *regulation 9.05* 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 9B**  
**Firms registered by the Institute of Chartered Accountants of Scotland**

**Procedures**

- 9.10** No *firm* has the right to attend or be represented at *Registration Committee* meetings, other than for a hearing.
- 9.11** Except for urgent orders under *regulation 8.11*, the *Registration Committee* must be satisfied that a *firm* has been given a reasonable opportunity to make written submissions before the committee considers any matters.
- 9.12** When it first considers a matter, except urgent orders under *regulation 8.11*, the *Committee* will:
- a** decide the matter in the *firm's* favour;
  - b** postpone a decision; or
  - c** give written notice to the *firm* of the order that the *Registration Committee* proposes and the factors taken into account.
- 9.13**
- a** A *firm* 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 a *firm* wants a hearing, it must tell the *Institute* in writing within ten *business days* of the proposed order being served.
  - c** A *firm* is entitled to attend a hearing and to be legally represented. The *Registration Committee* can appoint anyone to present the case against the *firm*.
  - d** As soon as is practical after a *firm* has asked for a hearing, a *Panel* will consider the matters afresh and can make any order which the *Registration Committee* could have made.
- 9.14** If the *firm* has not asked for a hearing within the time allowed, the order comes into force at the end of that time.
- 9.15** The *Registration Committee* may waive requirements of *regulations 9.13* and *9.14*, in the *firm's* favour.
- 9.16** The *Panel* may order a *firm* or an *audit regulated non-member* to contribute to the costs of the hearing.

**Appeal**

- 9.17** Within ten *business days* of the *Registration Committee* serving an order following a hearing, the *firm* 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* or associated guidance; or
  - 3) did not comply with these *regulations*, or procedures decided by the *Registration Committee* under *regulation 7.15*;
- 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.

**9.18** As soon as is practical after notice of appeal has been received under *regulation 9.17*, 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.

**9.19** If the *Appeal Committee* sends the matter back to the *Registration Committee* under *regulation 9.18*, the *Appeal Committee* will tell that committee how to proceed.

## Chapter 10

### Disciplinary arrangements

The Registration Committee does not have the power to discipline firms, except for the ICAEW's regulatory penalties which are dealt with in regulations 10.02 to 10.07. Only the Disciplinary, Discipline or Investigation Committees (or the Joint Disciplinary Scheme) can discipline firms or members. The bye-laws or rules already provide a framework for disciplinary action to be taken against members or firms.

The purpose of the regulations in this chapter is to apply those disciplinary procedures to registered auditors.

#### Section 10A

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

#### The application of the Disciplinary Bye-laws

**10.01** The Disciplinary Bye-laws apply to complaints of breaches of these *regulations* by a *Registered Auditor*.

#### Regulatory penalties

The Registration Committee may decide that a referral to the Investigation Committee for a failure to comply with these regulations is not appropriate. Instead, with the agreement of the firm, the Registration Committee can propose a regulatory penalty. The following regulations explain this process.

**10.02** 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 before the penalty is proposed;
- b the 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 tell the *Institute* within ten *business days* of the date of service of the letter from the *Institute* containing the proposal.

**10.03** There are no rights of review or appeal under *regulations* 9.04 to 9.09 against a *regulatory penalty*.

**10.04** The *Registration Committee* may take account of any comments a *Registered Auditor* makes in accepting a *regulatory penalty*. It may then reduce the amount of the penalty.

**10.05** If the *Registered Auditor* accepts the penalty under *regulation* 10.02c, the *Registration Committee*, as soon as is practical:

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

- 10.06** Details of any penalty accepted, and the order made, will be kept by the *Institute* and the committee may, if it wishes, use that information in the future.
- 10.07** If a *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 where a firm has consistently been late in replying to letters from the committee or secretariat, has failed to submit annual returns 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 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.

## **Section 10B**

### **Firms registered by the Institute of Chartered Accountants of Scotland**

#### **The application of the Rules governing discipline**

- 10.08** With the following exceptions, chapter XII of the Rules (Discipline, Insolvency, etc.) will apply to complaints about breaches of these *regulations* by a *Registered Auditor* in the same way as it applies to complaints against a member or student.
- 10.09** The term 'defender' in chapter XII includes a *Registered Auditor* and has the same meaning as the definition in rule 57.
- 10.10** Rule 57A (liability to disciplinary action) will not apply but a *Registered Auditor* may be liable to disciplinary action for breaching these *regulations*.
- 10.11** Paragraph 3 of rule 60 (describing the powers of the Discipline Committee) will not apply if a *Registered Auditor* breaches these *regulations*. Instead, if the *Discipline Committee* considers that a complaint brought by the *Investigation Committee* under this chapter is proved in full or in part, it will make a finding to that effect. The *Discipline Committee* will take the seriousness, the type of complaint and any other relevant circumstances into account. It may make any of the following orders:
- a that the *Registered Auditor* be censured, reprimanded or admonished;
  - b that the *Registered Auditor* be fined; or
  - c that registration be withdrawn.
- 10.12** Even if a complaint has been proved, the *Discipline Committee* need not make an order.
- 10.13** If a *Registered Auditor* has not paid on time any fines or costs ordered by the *Discipline Committee*, the *Appeal Committee* or any Committee appointed under the *Disciplinary Scheme*, registration will be withdrawn unless the relevant committee decides otherwise.

**10.14** A *Registered Auditor* will be liable to disciplinary action for failing to comply with a requirement of the *Investigation Committee* under paragraph 3 of rule 59 (providing information and so on).

## Section 10C

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

#### The application of the Bye-laws governing disciplinary arrangements

- 10.15 With the following exceptions, chapter XI of the *Bye-laws* (Discipline) will apply to breaches of these *regulations* by a *Registered Auditor* in the same way as it applies to complaints against a member or student.
- 10.16 The term 'defendant' in chapter XI includes a *Registered Auditor* and has the same meaning as the definition in bye-law 77(c).
- 10.17 Bye-law 61 (liability to disciplinary action) will not apply. Instead, a *Registered Auditor* will be liable to disciplinary action for breaching these *regulations*.
- 10.18 Bye-law 68 (powers of the Disciplinary Committee) will not apply if a *Registered Auditor* breaches these *regulations*. Instead, if the *Disciplinary Committee* considers that a complaint brought by the *Investigation Committee* under this chapter is proved, it will make a finding to that effect. The *Disciplinary Committee* will take the seriousness, the type of complaint and any other relevant circumstances into account. It may make any of the following orders:
- a that the *Registered Auditor* be censured, reprimanded or admonished;
  - b that the *Registered Auditor* be fined; or
  - c that registration be withdrawn.
- 10.19 Even if a complaint has been proved, the *Disciplinary Committee* need not make an order.
- 10.20 At any time while the *Disciplinary Committee* is considering a complaint it can order a *Registered Auditor* to suspend some or all of its audit activities for up to 30 days. The committee must believe that continuing the audit activities could adversely affect a client or someone else.
- 10.21 There is no limit to the costs which may be ordered against a *Registered Auditor* under bye-law 73 (power to order costs).
- 10.22 If a *Registered Auditor* has not paid on time any fines or costs ordered by the *Disciplinary Committee*, the *Appeal Committee* or any committee appointed under the *Disciplinary Scheme*, registration will be withdrawn.
- 10.23 A *Registered Auditor* will be liable to disciplinary action for failing to comply with a requirement of the *Investigation Committee* under bye-law 65(a) (providing information and so on).

## **Guidance**

### **Chapter 1**

#### **Guidance on fit and proper status**

##### **Background**

1. Regulation 2.01 expressly requires a firm to be 'fit and proper'. Regulation 3.05 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 recognised supervisory body, to have adequate rules and practices to make sure that registered auditors are fit and proper to be appointed as company 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 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:
  - a the sole practitioner or the principals;
  - b employees involved in audit work (including students);
  - c consultants involved in audit work on the firm's behalf;
  - d sub-contractors doing audit work on the firm's behalf; and
  - e anyone else whose work a principal relies on when carrying out audit work.

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

- SAS 500 'Considering the work of internal audit';

- SAS 510 'The relationship between principal auditors and other auditors'; and
- SAS 520 '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:
  - a any director or controller of the corporate partner;
  - b any body corporate in the same group as the corporate partner; and
  - c any director or controller of any body corporate in 9b.
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:
  - a any director or controller of the body corporate;
  - b any other body corporate in the same group; and
  - c any director or controller of any body corporate in 10b.

### **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 tell the audit compliance principal of anything that has a bearing on their fit and proper status.
14. If the firm is required to consider its own fit and proper status, a return 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 2.07 requires a firm to notify the Audit 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 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:
- a the seriousness of the matter;
  - b the timing of the event;
  - c the level of the individual's or body's involvement in audit work; and
  - d the likely risk to clients.
17. For example, a recent disciplinary finding against an audit partner would weigh more heavily than a ten-year-old finding of misconduct (and a reprimand by a professional body) against a tax partner who is neither a qualified individual for ownership and control purposes, nor 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 tell the Institute of the circumstances and the Registration Committee will advise on the firm's fit and proper status. Before contacting the Registration Committee, the firm may also wish to consider the guidance issued by the ICAEW on the duty to report misconduct. This discusses matters which should be reported, including:
- 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; and
  - carrying out professional work in a grossly incompetent manner.

## 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"/>
<b>Civil liabilities</b>		
2 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 finding against it by a court, or a settlement being agreed?	<input type="checkbox"/>	<input type="checkbox"/>
<b>Good reputation and character</b>		
3 In the last ten years has the firm been:		
• 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"/>

## 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 has a court, in the United Kingdom or elsewhere, given any judgement against you about a debt?	<input type="checkbox"/>	<input type="checkbox"/>
2 In the last ten years have you made any compromise arrangement with your creditors?	<input type="checkbox"/>	<input type="checkbox"/>
3 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"/>
4 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>Convictions or civil liabilities</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 offences committed before the age of 17 (unless committed within the last ten years) and road traffic offences that did not lead to a disqualification or 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.		
6 In the last five years have you, in the United Kingdom or elsewhere, been the subject of any civil action relating to your professional or business activities which has resulted in a finding against you by a court, or a settlement being agreed?	<input type="checkbox"/>	<input type="checkbox"/>

7 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"/>
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**Good reputation and character**

8 Have you, in the United Kingdom or elsewhere, ever 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 partnership?

<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?

 

**9** Are you currently undergoing any investigation or disciplinary procedures as described in 8 above?

## Guidance

### Chapter 2

#### Guidance on maintaining competence

1 Audit regulation 3.11 requires a registered auditor to

'...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.'

The definition of employee is wide and includes sub-contractors and consultants involved in audit work. Guidance is provided in chapter 3 of the regulations and further guidance is given here.

#### Competence

2 Competence results from:

a thorough recruitment procedures;

b appropriate training, including:

- acquiring and retaining the knowledge used in audit work;
- regularly updating that knowledge;
- fostering the spirit of professional integrity and objectivity in which the knowledge should be applied;
- developing the ability and techniques to apply the knowledge in a practical way;
- familiarity with the firm's supervision procedures;
- arrangements for helping and supporting principals and employees if this is needed;

c adequate supervision of individuals at all stages of their employment; and

d relevant work experience.

3 All firms should have appropriate procedures, although these may vary according to the size of the firm as may the methods of putting them into practice.

4 A firm should establish guidelines on the level of competence needed for the various levels of responsibility within the firm. Such guidelines could include criteria on:

a technical knowledge;

b analytical and judgemental skills;

c communication skills;

d leadership and training skills;

- e business relationships with clients;
- f academic and professional qualifications; and
- g personal qualities.

## **Recruitment**

- 5 A firm should make sure that it only recruits employees with suitable qualifications, including any necessary expertise in specialised audit skills or industries. The recruitment process starts with planning for staffing needs and setting recruitment criteria based on those needs. The recruitment criteria should help the firm recruit employees who have the ability, either to begin with or after suitable training and experience, needed to exercise the appropriate level of judgement.
- 6 When considering future staffing needs, a firm should consider the following points:
- a volume of practice work;
  - b types of work at all levels;
  - c existing staff structure;
  - d methods of work and management of staff; and
  - e any expected changes.

In a small firm, planning may be more informal. Larger firms usually have more complex staff-planning procedures. It is important to consider the need to recruit employees with specialist knowledge or expertise.

- 7 For each vacancy, a firm should identify the theoretical knowledge, experience and personal skills needed. They might include:
- a academic background;
  - b professional qualifications;
  - c personal achievements;
  - d work experience; and
  - e qualities such as communication skills, motivation, initiative and interpersonal skills.

The Education and Training department of the ICAEW has produced guidelines on selecting and recruiting students. The Education department of the ICAS has issued nine 'Standards of CA student training'. Standard number eight deals with recruitment and selection policy. Firms may find these documents useful.

- 8 It is essential to get proper references and make any necessary follow-up enquiries. References and any follow-up should be kept on file. New employees should be given an induction programme to explain the firm's policies and procedures.
- 9 Additional care may be needed with new sub-contractors. Where possible, references should be obtained. Work should be carefully checked until the firm is satisfied it is being done properly.

### **Technical training and updating**

- 10 All principals and employees should be required to keep themselves technically up to date on matters that are relevant to their work. The firm should establish guidelines or requirements for continuing professional education and these should be given to all employees. A firm is responsible for the continuing professional development and education of its employees. Firms should also consult their registering Institute for any other guidance issued to help members with their continuing professional education.
- 11 In establishing whether a principal or employee is technically up to date, a firm should consider the seniority or responsibility of that person and the amount of their involvement in audit work. Discussions with principals and employees about their performance on audit work should include an individual programme of structured and unstructured continuing professional education, relevant to the needs of that individual. This would help the individual to follow the registering Institute's continuing professional education guidelines.
- 12 Members of (or firms registered with) the ICAEW, principals and employees involved in audit work, unless to a minimal extent, should obtain at least 75 points in relevant continuing professional education. At least 30 points should be from structured continuing professional education.
- 13 Any principal's or employee's personal record of continuing professional education can be inspected by the Institute, the Registration Committee or its agents at any time. Firms should keep records, for each individual, of training arranged by the firm. Each individual should also be reminded to keep personal records of training, which would include training (both structured and unstructured) not provided by the firm.
- 14 The following list gives examples of subject areas that should be in a programme of continuing professional education. The programme can be a mixture of structured and unstructured training. Those involved in audit work should be familiar with these areas and should keep up to date with developments in them:
- Companies Acts requirements.
  - Auditing Practices Board: Statements of Auditing Standards and other statements.
  - Accounting Standards Board: Financial Reporting Standards and other statements.
  - Regulatory changes concerning audit.
  - Taxation developments relevant to audit clients.
  - Practice management.
  - Information technology developments.

- Personal skills.

- 15 A firm's procedures for keeping personnel up to date may include the following:
- a circulating digests or full texts, where appropriate, of:
    - professional publications such as accounting and auditing standards;
    - relevant legislation, for example companies acts and finance acts;
    - relevant statements by regulatory bodies, for example Personal Investment Authority, Housing Association rules etc;
    - United Kingdom and international statements on accounting and auditing matters;
    - papers of specialist interest such as on the oil and gas industries, pension fund accounting, charities and the business applications of information technology;
  - b maintaining a technical library holding copies of essential reference books relevant to the practice;
  - c requiring attendance on appropriate professional in-house courses, Institute courses and industry-led courses;
  - d issuing technical circulars and memoranda on professional developments as they affect the firm; and
  - e circulating Institute magazines: Accountancy for ICAEW, CA Magazine for ICAS, Accountancy Ireland for ICAI, and Audit News.
- 16 A firm should identify expertise needed in specialist audit techniques and industries and develop and maintain that expertise by:
- a encouraging attendance at external courses, meetings and conferences;
  - b encouraging membership and participation in organisations concerned with specialised audit skills and industries; and
  - c providing relevant technical literature.

Such specialisms may include skills such as computer auditing, statistical analysis, and industries such as financial services institutions, building societies, property companies, oil companies and so on.

- 17 To avoid doubt, regulations 3.11, 3.12 and 3.13, which relate to maintaining competence, apply to all registered auditors, in the United Kingdom and abroad. Principals and employees based abroad but employed on United Kingdom company audits must be up to date on United Kingdom audit matters.

## **On-the-job training and professional development**

- 18 When a firm assigns employees to particular audits, there should be the opportunity for appropriate on-the-job training and professional development. Employees should work on different types of audit and with more experienced members of the team who should have the responsibility for supervising and reviewing junior employees' work.
- 19 Employees supervising junior employees on an audit assignment should be able to monitor the progress of work to check, as far as possible, that:
- a junior employees are competent to carry out their assigned tasks;
  - b junior employees understand what they have to do; and
  - c the work is done according to the audit programme and overall plan.

Supervisors should have the experience to identify significant accounting and auditing questions raised during the audit, assess their significance and change the audit programme where necessary.

- 20 The work performance of those doing audit work should be evaluated, assessed and fed back to the person concerned, with an opportunity to respond to comments made and to agree to any proposed action.
- 21 It is particularly important that students and others working towards the appropriate qualification for audit purposes keep accurate and properly evaluated records of the audit experience they receive during the training period.

## **Information technology**

- 22 If an audit client has computer-based accounting systems, then principals and employees involved in the audit should have an appropriate level of theoretical knowledge and experience of information technology (IT). The level of competence required will depend on the sophistication of the client's computer system. An audit involving advanced IT may need personnel with specialist knowledge or expertise. Similarly, if the firm uses advanced IT in the audit, employees with specialist knowledge or expertise may be needed.
- 23 The principal responsible for the audit should understand enough about IT to understand the concepts and objectives of the audit work being done and if these have been achieved.

## **Guidance**

### **Chapter 3**

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

##### **Introduction**

1. Audit regulation 3.14 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. To provide further help suggested questions are included at the end of this chapter. These questions are in three parts and many firms will have to answer all three.

##### **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 an audit firm 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 Institutes register firms, not individuals. Because partners are liable individually and together, 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:
  - a Is the firm providing the service to its clients that they need and want?
  - b 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 3.14.

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

8. The audit regulations require a registered auditor to carry out audits according to auditing standards and require the firm to have certain procedures and arrangements in place for its audit work.

9. An ACR is to assure the firm that it has complied with the audit regulations. Therefore there are two elements to the review:
- a Were the audit reports issued by the firm validly made? In practice this confirms that the firm's procedures worked satisfactorily to ensure that:
    - audit assignments were carried out according to auditing standards and the firm's audit procedures;
    - financial statements reported on were in accordance with the Companies Act 1985 or other relevant legislation; and
    - an appropriate audit opinion was given.
  - b Had the firm established, implemented and maintained the required procedures and arrangements? This covers matters such as:
    - integrity;
    - independence;
    - competence;
    - the ability to perform an audit properly;
    - professional indemnity arrangements; and
    - consultation.

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

10. 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. Some suggested questions are set out at the end of this chapter. These are in three sections and start with questions appropriate to a sole practitioner with no employees. There are extra questions if the sole practitioner has employees, and further questions if the firm is a partnership or has more than one office.
11. The sections are in two parts. The first is headed 'whole firm' which relates to how the audit practice works. The second part is headed 'cold file review' 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.
12. 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.
13. The questions in parts A to C can only be a starting point. Compliance principals or sole practitioners should consider their own practices and amend or add any further questions so that the ACR is appropriate to their firm.
14. 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?**

15. 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.
16. The first step is to identify the person best placed to conduct the review. The choices are someone from:
- a within the firm;
  - b another registered auditor;
  - c the Institute; or
  - d a specialist organisation, such as a training consortium which provides a review service.

Each Institute can offer direct assistance with audit compliance and cold file reviews. The ICAEW has established Chartac Practice Services, the ICAS has Practice Review and ICAI members are encouraged to contact the Practice Advisory Service.

17. A sole practitioner or compliance principal could deal with the whole firm aspects of the review while completing the annual return. However, a 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.
18. Qualified employees within the firm can do the detailed cold file reviews. Some firms feel that, as a partner approved the issue of the audit opinion, only partners 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 partner and staff team. However, it may be more helpful to the person being reviewed if the feedback is given by someone of equal standing. 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.
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.
20. The audit regulations require that client confidentiality must be kept. Any outsider doing the ACR must complete a confidentiality declaration. An outsider who is a chartered accountant would, of

course, also be bound by statement 1.207 'Consultancy' 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 3.14 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;
- fit and proper status;
- competence;
- appointment and reappointment;
- professional indemnity insurance; and
- ongoing eligibility.

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. 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 partner 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. 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. Once the summary has been prepared, 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:
- a What should we do exactly the same way next time because it was successful?
  - b 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.

**Appendix**  
**Example questions for an audit compliance review**

*Parts A to C in this appendix contain suggested questions for different types of firms to use as part of an audit compliance review. The questions are not necessarily comprehensive, nor do they apply to all firms, and the questions may need to be amended or added to. In all cases, reference should be made to the regulations when preparing a work programme for an audit compliance review.*

*All firms should complete part A, and complete parts B and C if necessary.*

**Part A Sole practitioner with no employees**

**Whole firm**

- 1 Was there any agreed follow-up action as a result of the previous ACR? If yes, has it been done?
- 2 Have any complaints been received or potential PII claims notified since the last ACR? If yes, have any implications been considered for other assignments?
- 3 If not already carried out, review the firm's arrangements to guard against loss of independence (see the ethical guidance on objectivity and independence in audit work). Have the implications for any audit assignments been considered?
- 4 Have any matters arisen which may bring into doubt the fit and proper status of the firm?
- 5 Are there adequate arrangements to consult on ethical and technical issues?
- 6 Have the requirements for continuing professional education been met?
- 7 Is the professional indemnity insurance cover adequate?

**Cold file review**

- 8 Have key controls (for example the use of completion checklists and so on) been established to prevent sub-standard audit assignments leaving the office? Note these for use in question 10.
- 9 Are there any clients who present a high risk because of the nature of their business, the people interested in the accounts or the style of management? If yes, have they been identified and have these special risks been addressed?
- 10 Select a sample of completed engagements. These may include new clients and clients noted in question 9. Read the audited financial statements and consider whether there are any risks particular to the business and select those areas to review the work in detail. If no such risks exist, select the three most critical figures in the accounts that could affect a true and fair view. Then answer the following:
  - a Was the audit work properly planned, controlled and reviewed?

- b For the critical or risk areas selected:
- Was the audit work carried out according to auditing standards?
  - Was it possible to understand what audit work had been done?
  - Was the audit trail through to the final opinion clear?
- c Were all queries adequately resolved?
- d Did the financial statements comply with company legislation and with the accounting standards that apply?
- e Does the audit work support the opinion given?
- f Did the key controls noted in question 8 work successfully?
- 11 As result of the review in question 10:
- a Did the assignment planning take enough notice of the changes from the previous audit? (Consider changes in client circumstances as well as changes in requirements, for example, new disclosure or reporting requirements.)
- b Was it evident that the practitioner was technically up to date?
- c Did the review confirm the practitioner's independence?
- d Was there any indication that when there was a need to consult on ethical or technical issues this happened?
- e Was the way the work was carried out adequate to ensure that audits were conducted competently?
- 12 Had the firm's independence and its ability to properly perform the audit under review been taken into account in accepting appointment, or re-appointment, as auditor?

## **Part B Sole practitioners with employees or sub-contractors**

Firms should have already completed part A.

### **Whole firm**

- 1 For all employees (including sub-contractors and consultants) employed on audit work:
  - a were there current 'fit and proper' declarations?
  - b did their terms of employment stipulate that they were to keep all client affairs confidential and that they were to ensure that they were independent?
  - c did the employee records include:
    - details of training given?
    - assessments of competence to do the allocated work?
- 2 Were there arrangements:
  - a to prevent unqualified people from being able to influence the independence and integrity of an audit?
  - b to bring the firm's quality control procedures to the attention of all employees (including sub-contractors)?

### **Cold file review**

- 3 Did the sample of assignments selected for cold review (part A, question 10) cover the work of senior employees (including sub-contractors)?
- 4 The following questions need to be added to question 10 in part A:
  - a were the arrangements adequate to prevent the final audit opinion being adversely affected by employees with no audit qualification?
  - b were the employees (including sub-contractors) competent to perform the assigned work?
  - c was the planning of the assignments adequate for employees and sub-contractors to know what they had to do?
  - d were the employees adequately supervised?
  - e were the firm's arrangements adequate to update all those involved in audit work on audit developments?

### **Part C Firms with more than one office**

Firms should have already completed parts A and B.

#### **Whole firm**

- 1 Have all the questions about employees in part B been appropriately extended to principals?
- 2 Does the partnership or other agreement address independence and client confidentiality?
- 3 Have the results of the previous ACR been given to all principals and offices, and has appropriate action been taken?

#### **Cold file review**

- 4 Did the sample of cold reviews comply with the firm's procedures on how many files are reviewed for each principal and for each office?
- 5 As a result of the cold file reviews, add the following to the questions in parts A and B:
  - a were the principals complying with the firm's audit procedures and acting within the scope of their authority?
  - b where the firm's procedures call for a hot review or second partner review, did this review take place and follow the firm's procedures?