



# UK AUDIT REGULATIONS CONSULTATION

1 SEPTEMBER 2023 – 27 OCTOBER 2023

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## ABOUT THE CONSULTATION

ICAEW proposes to make some changes to the UK Audit Regulations and Guidance to address three policy areas. We are seeking feedback from stakeholders on the likely impact of the proposed changes.

The consultation is open from 1 September 2023 to 27 October 2023. Following the consultation process, revised regulations are expected to come into force early in 2024.

ICAEW is consulting with those it regulates for statutory audit on these proposed changes for transparency and to ensure that they are consistent with its duty to act in the public interest. Consulting also helps protect against any unforeseen or unintended consequences that may be brought about by the changes.

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

## KEY CHANGES

- A compulsory requirement for audit-registered sole practices (both individual sole practitioners and single-director corporate practices) to appoint an alternate who would take over in the event of the death or incapacity of the practitioner.
- Additional material to clarify that registered auditors must ensure that they and their staff comply with their professional body's continuing professional development requirements (CPD).
- The ability for the Audit Registration Committee to impose regulatory penalties and restrictions on responsible individuals (RIs).

### Compulsory alternates

#### Explanation of changes

There has been an increased focus on consumer protection by government and oversight bodies in recent years. Examples include:

- IAASA, the Irish audit oversight body, introduced a requirement in the 2022 Irish Audit Regulations for sole practitioner auditors to appoint alternates.
- ACCA also have a requirement in its regulations for sole practitioner auditors to **appoint** an alternate.
- A policy statement on consumer empowerment was published by the Legal Services Board<sup>1</sup>, and the Legal Services Consumer Panel exists to consider consumer protection in the legal services market.

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<sup>1</sup> [LSB statement of policy on empowering consumers \(legalservicesboard.org.uk\)](https://legalservicesboard.org.uk)

- The **publication** by the Financial Conduct Authority of new consumer protection guidelines<sup>2</sup> in July 2022 that took effect in July 2023. These potentially affect audit-regulated firms that are also licensed for financial services advice.
- The issue of ISQM1 (UK) by the Financial Reporting Council (FRC) which heightens the need for practice continuity.

Given these developments, we consider that greater consumer protection is needed in the area of audit work. The introduction of compulsory alternates for sole practices would help reduce risk both to the consumer and the practice. As part of a firm's overall succession planning, it would also help avoid the situation where employees, clients and other stakeholders are left in a state of uncertainty when the practitioner falls ill or sadly dies. The rising age profile of the sole practitioner auditor population means that there is an increased risk of issues arising due to incapacity of the practitioner.

At present, it is only **compulsory** for a sole practitioner to appoint an alternate if they handle client money, or are a licensed insolvency practitioner.

ICAEW provides guidance on the appointment of alternates which can be accessed [here](#) and [here](#). ICAEW members are also able to get in touch with each other informally through the district societies and seek support. However, district society participation is not available to sole practices we license for audit who are not members.

The proposed introduction of compulsory alternates for audit-registered sole practices has been discussed with the ICAEW Practice Committee. Their feedback has been taken into account in framing this consultation document.

### Regulatory changes

The following changes are proposed to the Audit Regulations (additions are highlighted in grey):

- a) New definition of the term 'alternate registered auditor':

alternate Registered Auditor	<b>A Registered Auditor with whom a firm which is a sole practice has made formal arrangements which take effect in the event of the incapacity or death of a sole practitioner and with whom the Institute can liaise in the respect of the sole practice in those circumstances.</b>
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- b) 2.02 firm eligibility requirements – extended to include a new obligation:

**2.02 f if the firm is a sole practice, the sole practitioner has put in place formal arrangements with an alternate Registered Auditor, to take effect in the event of the incapacity or death of the sole practitioner. The sole practitioner must confirm to the Registration Committee that such arrangements have been put in place.**

- c) 2.11 changes in circumstances – a new obligation added to notify ICAEW of changes to the alternate registered auditor:

### 2.11 d of any change in:

<sup>2</sup> PS22/9: A new Consumer Duty ([fca.org.uk](https://www.fca.org.uk))

- 1) the name or trading names of the *firm*;
- 2) the addresses of the *firm's* offices;
- 3) the names or principal business address of any of the *firm's principals* or *responsible individuals* including new *principals* or *responsible individuals*;
- 4) the details of any other audit registration that any *responsible individual* has in another country, the name of the registering body and any registration number;
- 5) the name or address of the *audit compliance principal*; or
- 6) the name or address of the *alternate Registered Auditor*.

In addition, the transitional period will be at least six months and is currently drafted as:

**1.05 A Registered Auditor which is a sole practice should comply with the requirement at 2.02f from TBC July 2024.** [This date will be six months from when regulation 2.02f comes into force.]

This wording mirrors that already applied in the ICAI Irish Audit Regulations.

### Extension to all areas of accountancy

In proposing the policy change to introduce compulsory alternates for audit-registered sole practices, the question has been raised as to whether compulsory alternates should be a requirement for all sole practices whatever type of accountancy services are provided. Should ICAEW decide to propose this wider policy change, there would be further consultation. However, we would welcome any initial views on this potential further extension of the compulsory alternates policy.

### Questions – compulsory alternates

1. Do you agree it is now a proportionate requirement for all audit-registered sole practices to appoint an alternate?
2. Are there any additional factors that ICAEW should take into account when considering the policy?
3. What additional steps should be taken to support sole practices?
4. Are the draft regulations clear?
5. Are there additional factors required in considering the transitional period for compulsory alternates?
6. Should the compulsory alternates policy be extended to all areas of accountancy?
7. If so, what are the principal hurdles that would need to be overcome?

### Continuing professional development

#### Explanation of changes

ICAEW is introducing revised Continuing Professional Development (CPD) Regulations with effect from 1 November 2023. These regulations provide members with greater clarity on the amount of CPD they should undertake. The regulations also introduce a requirement for ICAEW member firms

(including firms that use the description Chartered Accountants) and firms registered with ICAEW for regulated work, to ensure that all their ICAEW members and regulated individuals comply with the minimum CPD hours that apply for their role.

There were two consultations issued in 2022 that detailed the proposed revised CPD Regulations. These consultations noted increasing expectations from ICAEW's oversight regulators that professional bodies take steps to ensure members are competent and up to date, with monitoring and disciplinary action for those who fail to undertake sufficient CPD.

In Ireland, ICAI introduced stricter CPD requirements in the April 2022 Irish Audit Regulations, following guidance published by IAASA.

Under the revised ICAEW CPD Regulations, all members and regulated individuals will sit in one of three categories for practice or business. The category for an individual who provides audit services depends on their role and client base.

The CPD Regulations explain that the ICAEW Practice Assurance Committee (PAC) will be the regulatory committee supervising the monitoring of CPD. If a failure to comply with the CPD Regulations is identified by the Quality Assurance Department, the undertaking to remedy the failure will be monitored by the PAC. Should there be a subsequent failure to comply with an undertaking, or no undertaking is provided, the PAC would refer the matter to the Conduct Department for investigation.

The Audit Registration Committee may issue regulatory penalties for breach of the Audit Regulations, and also issue undertakings on any areas deemed necessary, which could include CPD. The Audit Registration Committee will be informed by the PAC of any regulatory decisions that affect the licensing of RIs for audit.

### Regulatory changes

**The following changes are proposed to the Audit Regulations, including a new regulation 3.17A (additions are highlighted in grey):**

**3.17 A Registered Auditor must make arrangements so that all *principals* and *employees* doing audit work are, and continue to be, competent to carry out the audits for which they are responsible or employed. The Registered Auditor's arrangements in this regard facilitate compliance with regulation 3.17A by the responsible individuals. A Registered Auditor must make arrangements for the retention of the records of continuing professional development ('CPD') undertaken by principals and employees including the CPD undertaken by responsible individuals to comply with regulation 3.17A. A Registered Auditor must ensure that CPD records are made available to the registering Institute for inspection and review when requested.**

The ICAEW guidance on how individuals may maintain their competence can be found at [icaew.com/cpd](https://icaew.com/cpd). Revised requirements are operating from 1 November 2023 including the use of three categories according to the type of audit and role. ICAS has issued 'Guidelines on continuing professional development' to its members and the ICAI has issued Continuing Professional Development Regulations.

All responsible individuals are required to comply with the requirements of regulation 3.17A whether they are members of an Institute, audit affiliates or members of ACCA.

**3.17A A responsible individual is required to:**

- (a) take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values, in relation to auditing, at a sufficiently high level. A *responsible individual* must undertake CPD to:
- achieve the learning outcomes in Table A of IES 8; and
  - maintain professional knowledge in (i) the UK auditing framework and (ii) financial standards in use in the UK relevant to the preparation of financial statements and to statutory audit;
- (b) ensure that appropriate records are retained to demonstrate compliance with the *responsible individual's* CPD obligations.

The Institutes provide guidance in relation to choosing the appropriate approach to CPD, identifying learning and development needs, undertaking CPD and maintaining appropriate records and evidence. In the case of ICAEW these are set out in their CPD hub. In the case of ICAI and ICAS, guidance is given regarding the operation of the output-based approach to CPD, through which individuals demonstrate by way of learning outcomes that they develop and maintain professional competence, will be useful for responsible individuals complying with regulation 3.17A.

The Institute reviews the CPD records of each responsible individual at least once every six years. Registered auditors and responsible individuals ensure CPD records are complete and available for inspection when requested. CPD records should be retained for at least six years

## Questions - CPD

8. Are the proposed revisions to the Audit Regulations in line with your understanding of the new CPD Regulations?
9. Are there any practical difficulties in achieving the obligations set out in these revisions?

## Sanctioning of responsible individuals

### Explanation of changes

Historically the Audit Registration Committee (ARC) has applied regulatory penalties and restrictions to firms only, and not responsible individuals (RIs). The only options currently available to the ARC in relation to an RI's actions are removal of RI status or referral of the matter to the Conduct Department for a disciplinary investigation.

However, there is an implicit requirement in the FRC delegation agreement for the powers of the FRC set out in SATCAR<sup>3</sup> to be mirrored in those of the RSBs, and as the FRC often apply penalties restrictions and suspensions to RIs as well as firms, this is a power which should be clearly recognised by RSBs in the Audit Regulations.

In addition, the new requirements emerging on CPD where the responsibility falls equally on firm and individual require that the individual as well as the firm is held to account through the sanctions available. It would be disproportionate and ill-targeted to pass through to the Conduct Committee minor infractions by an individual relating to CPD which could be dealt swiftly by the ARC rather than draw out over the longer disciplinary process.

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<sup>3</sup> Statutory Auditors and Third Country Auditor Regulations 2016

It is therefore proposed that the Audit Regulations are updated to include the ability for the ARC to issue regulatory penalties and impose restrictions on RIs as well as firms. The ARC's current powers would also remain available.

It should be noted that in most cases the ARC will focus enforcement action on the firm and leave the firm to apply its own enforcement processes to relevant responsible individuals. However, the FRC expect the ARC to exercise this power where circumstances warrant it.

### Regulatory changes

The following changes are proposed to the Audit Regulations (additions are highlighted in grey):

a) Definition of the term 'regulatory penalty' extended to include RIs:

regulatory penalty	<b>An amount imposed with the consent of a <i>Registered Auditor</i> or <i>responsible individual</i> as a penalty for breaches of these regulations which the <i>Registered Auditor</i> or <i>responsible individual</i> agrees have been committed.</b>
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b) Powers of the Registration Committee – extended to cover RI conditions, restrictions and regulatory penalties

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

- f **imposing restrictions or conditions it considers appropriate on how a *Registered Auditor* or *responsible individual* carries out audit work;**
- g **proposing a *regulatory penalty* it considers appropriate to a *Registered Auditor* or a *responsible individual*;**

c) Guidance to regulation 6.04 – wording clarified to include RIs:

However, regulation 6.04 reserves certain specified decisions to the committee. These include proposing a regulatory penalty to a registered auditor or responsible individual, withdrawing registration for other reasons and placing restrictions on a firm's registered auditor or responsible individual's registration.

d) Conditions and restrictions – scope of regulation 7.01 extended to include RIs:

#### 7.01 The Registration Committee may impose restrictions or conditions on a *Registered Auditor* and certain of its *responsible individuals* if it considers that: [(a) to (e)]

e) Guidance to Regulation 7.01 – wording moved from 7.02A and clarified:

The committee may place conditions on how a registered auditor carries out or manages its audit work. These could be that a firm should undertake specified training, change its procedures or have 'cold reviews' of audit files by another registered auditor, or that a firm ensures that a responsible individual's CPD is brought into compliance where deficiencies have been identified.

The committee may place restrictions on a registered auditor. Restrictions may include:

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



- that a principal or employee at the firm, is temporarily prohibited, for a defined period of time, from exercising functions in the audit firm - for example where a particular principal may no longer be the firm's audit compliance principal; and
- that the firm, or a responsible individual at the firm, is temporarily prohibited, for a defined period of time, from carrying out audits or signing auditor's reports.

f) Withdrawal of registration – extended to cover withdrawal of RI status:

**7.03** The *Registration Committee* may withdraw a *firm's* registration, or where appropriate, a *responsible individual's* registration if: [(a) to (j)]

g) Cessation of responsible individual status – cross referencing of regulation 4.08 to regulations 7.01 or 7.03:

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

f the *Registration Committee* withdraws *responsible individual* status for example under regulation 7.01 or 7.03

h) Regulatory penalties – extended to cover RIs:

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

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

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

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

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

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

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

**9.07** Where the *Registration Committee* has proposed a *regulatory penalty* in accordance with 9.02, but the *Registered Auditor* or *responsible individual* 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.**

i) Guidance to Audit Regulations 9.02-9.07 – extended to cover RIs:

Regulatory penalties are likely to be used, for example, where a registered auditor or responsible individual has consistently been late in replying to letters from the committee or staff, has failed to submit annual returns or CPD returns of responsible individuals, has given incorrect information on a return and so on, or has not honoured undertakings given to the committee or has failed to co-operate with CPD monitoring or to ensure that responsible individuals at the firm co-operate with CPD monitoring or to retain adequate CPD records to permit Institute review.

There is no right of appeal as a regulatory penalty can only be made with the registered auditor's or responsible individual's agreement. Once a matter has been settled by a regulatory penalty, there will be no further regulatory or disciplinary action against the registered auditor or responsible individual 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.

### Questions

10. Are the proposed revisions in the Audit Regulations regarding sanctioning of responsible individuals sufficiently clear?

11. Are there any practical difficulties in achieving the obligations set out in these revisions?

### Diversity, equality and inclusion

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

### Question

12. Are there any adverse impacts arising from a diversity, equality and inclusion perspective from the changes outlined in this consultation as a whole?

## JOINT AUDIT REGULATIONS

ICAEW together with the Institute of Chartered Accountants Ireland (ICAI) and the Institute of Chartered Accountants Scotland (ICAS) are Recognised Supervisory Bodies for the regulation of audit, and jointly have a set of audit regulations which are approved by the FRC. The Audit Regulations were updated in December 2022 for the new public interest entity (PIE) auditor registration scheme and clarifications on ownership tests. The Audit Regulations were also updated in June 2023 to reflect consequential amendments to ICAEW's Disciplinary Framework.

Both ICAI and ICAS are supportive of the proposed changes to the Audit Regulations as set out in this consultation.

## RESPOND TO THE CONSULTATION

**[Submit your response via this online form.](#)**

Or post your response to:  
ICAEW Regulatory Practice & Policy Team  
Professional Standards Department  
Metropolitan House  
Avebury Boulevard  
Milton Keynes  
MK9 3FS

This consultation closes on **Friday, 27 October 2023.**

## REVIEW THE DETAIL OF THE CHANGES

**[Read a summary of the changes to the Audit Regulations.](#)**

**[Access a marked-up version of the Audit Regulations showing the proposed text changes.](#)**

## ICAEW's regulatory and conduct roles

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

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

We:

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

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 202,450 members and students around the world. All of the top 100 global brands employ ICAEW Chartered Accountants.\*

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

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

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

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

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

[charteredaccountantsworldwide.com](https://www.charteredaccountantsworldwide.com)

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\* includes parent companies. Source: ICAEW member data  
March 2023, Interbrand, Best Global Brands 2022



ICAEW is  
carbon neutral