



# ***Guidance for Audit Regulations***

## ***3.15A – 3.15D: notification of the movement of audits***

This guidance note is to assist ICAEW-registered audit firms with applying new regulations 3.15A – 3.15D which require a registered audit firm to notify ICAEW when appointed to certain audit engagements which may be complex or high risk.

### **BACKGROUND**

To strengthen consumer confidence and trust in audit, ICAEW monitors changes in risk profile across ICAEW-registered audit firms, including identification of firms that have recently accepted appointment to audits that are potentially of a higher complexity or greater public interest.

To give ICAEW more timely information about appointments to certain audits, a new notification mechanism has been added to the Audit Regulations. Notifications made to ICAEW will be combined with other information held by ICAEW to inform its risk assessment and may result in enquiries to understand the firm's assessment of its expertise and the resources available to carry out a good quality audit.

Based on the responses to these enquiries, ICAEW can provide guidance such as suggested additional resources or quality control procedures that the firm should adopt to safeguard audit quality. ICAEW cannot intervene in a tender process and would not normally seek to prevent the progress of an ongoing audit. If there are concerns about a firm, these may result in an accelerated audit monitoring visit or, if there is some reason for serious concern, a firm could be immediately referred to the Audit Registration Committee (ARC).

Whilst firms will be required to notify ICAEW of any audit engagements which fall under regulations 3.15A(a) – 3.15A(d), they can apply for a waiver from the 21-day notification requirement. Firms with a waiver will instead be required to report relevant audits annually alongside their annual return.

### **IN WHAT CIRCUMSTANCES DOES A FIRM HAVE TO NOTIFY ICAEW OF AN AUDIT APPOINTMENT?**

A notification will be required when a firm is appointed to an audit engagement in the following circumstances:

- a) the audited entity is listed; or
- b) the audited entity has turnover greater than £750 million, or is an Other Entity of Public Interest under the FRC Ethical Standard; or

- c) the expected first year audit fee for the entity/group/collection of entities under the same beneficial owner or controlling party is more than twice the firm's existing highest audit fee. The first-year audit fee is subject to a de minimis of £25,000; or
- d) the firm has three or fewer responsible individuals and the audited entity (or group or entities under common beneficial ownership or control) has combined turnover greater than £750 million.

Note: no notification is required under regulations 3.15A(a) – 3.15A(d) if the audit is retained by the Financial Reporting Council. There are separate requirements to notify the FRC and ICAEW of appointment to a retained audit in regulation 3.15. References to a retained audit refer to UK statutory audits of UK public interest entities (PIEs) or UK incorporated entities that are not SMEs which are listed on the Alternative Investment Market or the Aquis Stock Exchange (previously the ICAP Securities and Derivatives Exchange (ISDX)) on the basis of year end quotes for the previous three calendar years.

Notification is required on appointment as auditor for regulations 3.15A(a) – 3.15A(d), or the first time a company meets any of the criteria in audit regulations 3.15A(a) or 3.15A(b). Audit regulations 3.15A(c) and 3.15A(d) only apply to the year in which the auditor was first appointed. If following an appointment, an audited entity falls out of one of the criteria, no action need be taken. Further details for each of these criteria can be found below.

### **Regulation 3.15A(a)**

Regulation 3.15A(a) applies when a firm is appointed as auditor to a UK listed audit.

A listed audit for these purposes is the audit of a UK incorporated entity that is:

- quoted on the Alternative Investment Market (AIM) or the Aquis Stock Exchange (AQSE); and
- has a market capitalisation of less than €200m on the basis of end- year quotes for the previous three calendar years.

If during an appointment an audited entity meets the criterion in 3.15A(a) for the first time, the firm has 21 business days from becoming aware that the criterion has been met to make a notification. It is expected that such a situation will be identified at the audit planning stage.

### **Regulation 3.15A(b)**

Regulation 3.15A(b) applies when a firm is appointed as auditor to a UK non-PIE entity which has:

- turnover greater than £750m; or
- is an Other Entity of Public Interest under the FRC Ethical Standard.

The £750 million turnover test is taken from the proposed threshold for the extended definition of a public interest entity<sup>1</sup>. Whilst it is currently uncertain whether or not the PIE definition will be extended, in the event that it is extended this test will be reviewed.

Calculation of turnover for the company or group of companies should be in line with the definition in Companies Act 2006, Section 474.

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<sup>1</sup> See para 1.6.29 '[Restoring trust in audit and corporate governance: Government response to the consultation on strengthening the UK's audit, corporate reporting and corporate governance systems](#)' (May 2022)

'Other Entity of Public Interest' is defined as an entity which does not meet the definition of a Public Interest Entity but nevertheless is of significant public interest to stakeholders. This includes:

- e) AIM listed entities which exceed the threshold to be an SME listed entity as calculated using the definition in the FRC Glossary;
- f) Lloyd's syndicates;
- g) private sector pension schemes with more than 10,000 members and more than £1 billion of assets, by reference to the most recent set of audited financial statements;
- h) entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860) by reference to the most recent set of audited financial statements, excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure<sup>2</sup>.

Note that it is currently unclear whether or not the PIE definition will be extended, and if so, what impact this will have on the definition of Other Entity of Public Interest. This criterion will be reviewed if necessary, once there is clarity over the PIE definition.

If during an appointment an audited entity meets one of the criteria in regulation 3.15A(b) for the first time, the firm has 21 business days from becoming aware to make a notification. It is expected that such a situation will be identified at the audit planning stage.

### **Regulation 3.15A(c)**

Regulation 3.15A(c) applies when a firm is appointed as auditor to a UK entity, group or collection of entities with the same beneficial owner or controlling party and the expected first year audit fee is:

- more than twice the firm's highest audit fee with reference to the audits on the firm's last annual return for an entity, group or collection of entities with the same beneficial owner or controlling party; subject to
- a de minimis of £25,000.

See the [Appendix](#) for a detailed explanation how to determine the highest audit fee with reference to the audits on the firm's last annual return.

Note that the de minimis applies to the new audit fee, and a notification is not required where the new audit fee is below £25,000. For example, no notification would be required where the new expected audit fee was £24,000 and the previous highest audit fee was £12,000 as the de minimis would apply. A notification would be required where the new expected audit fee was £26,000, and the previous highest audit fee was £13,000.

The fee that is eventually charged for the first year of an audit may not reflect the fees estimated at the appointment stage. However, for the purposes of audit regulation 3.15A(c) the estimated fee for the first year estimated at the time of appointment should be taken as a proxy for the expected first year audit fee.

The definition of 'beneficial owner or controlling party' aligns with that in the FRC Glossary of Terms, ie, *'any individual that ultimately owns or controls the entity. This includes structures where*

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<sup>2</sup>Glossary of Terms (Auditing and Ethics) 2024

*the ownership or control is exercised through a chain of ownership involving one or more intermediary entities, or other indirect means*<sup>3</sup>.

### **Regulation 3.15A(d)**

Regulation 3.15A(d) applies when a firm has three or fewer responsible individuals, and the audited entity or group or collection of audited entities under common beneficial ownership or common control have a combined turnover greater than £750m.

Notification to the ARC would only be required on the first appointment upon which the threshold had been reached.

The number of responsible individuals is to be taken as the number of responsible individuals at the date that the auditor is appointed (usually the date of the AGM of the audited entity). If the number of responsible individuals subsequently falls to three or fewer, there is no need to make a notification for existing audit appointments.

When measuring turnover, the turnover of the audited entity, the consolidated turnover where the firm has been appointed as group auditor, or the aggregate turnover of a collection of entities with the same beneficial owner should be considered for the purposes of regulation 3.15A(d). Where a firm is appointed as auditor to a number of components, and not the whole group, the turnover for the component(s) audited should be considered.

## **TIMING OF NOTIFICATION - WITHIN 21 BUSINESS DAYS OF APPOINTMENT**

Regulation 3.15B requires the notification to be made within 21 business days of the firm's appointment as auditor to the entity.

The date of appointment or reappointment is the date of the AGM (ie, the meeting at which the annual report and accounts for the previous financial year are laid) in accordance with S489(2) CA 2006.

In cases where the auditor is not appointed/ reappointed at the AGM, the date of the directors' decision to appoint should be taken to be the appropriate date (S489(3) CA 2006).

[Notify ICAEW about the movement of a relevant audit](#)

## **WAIVER**

Under regulation 3.15C registered audit firms may apply to the ARC for a waiver, which will be granted if it is considered that the firm has substantial experience, competence, and capacity in performing the types of audits that are notifiable.

Where a waiver has been granted, the audit firm must provide details of any audits that would otherwise be notifiable annually to ICAEW under regulation 3.15D.

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<sup>3</sup> [Glossary of Terms \(Auditing and Ethics\) 2024](#)

The ARC may review any waiver granted and rescind the waiver in certain circumstances or at any time, including where it has concerns arising from a quality assurance audit monitoring visit. The decision of the ARC is final and is not subject to review or appeal.

[Apply for a waiver](#)

## Annual notification

The pro forma notification form will be published shortly. The completed form should be submitted with firms' next annual return (after 1 June 2025).

## APPENDIX

### APPLICATION OF REGULATION 3.15A(c)

Regulation 3.15A(c) requires a firm to determine the 'highest audit fee with reference to the audits on the firm's last annual return ...'. Whilst the annual return requires notification of the highest fee (audit and non-audit) for an audited client, it is important to note that this figure may not represent the highest audit fee for the firm as follows.

#### Example - Annual Return completed as at 31 March 20X5

Total number of regulated audits notified in annual return (**AC21**): 15 (does not include any groups, or collection of entities with the same beneficial owner or controlling party).

The regulated audits include the following clients with the highest total of fees, and highest audit fee respectively:

- Audit A – audit fees £15,000, non-audit fees £7,500. Total fees for all services = £22,500; and
- Audit B – audit fees £19,000, non-audit fees £1,500. Total fees for all services = £20,500.

The largest total fee (for all services) receivable from an audit client and its subsidiaries which is include in the annual return (**AC23**) is £22,500.

However, '*the firm's existing highest audit fee as notified on the firm's last annual return*' is **£19,000**, being the highest audit fee across the 15 regulated audit clients as at 31 March 20X5.

#### New audits during the period starting 1 April 20X5

The firm will need to notify any new audit client with audit fee more than £38,000 (ie, 2 x £19,000).

- May 20X5: Audit C – audit fees £30,000, non-audit fees £18,000. Total fees for all services = £48,000 - no requirement to notify.
- July 20X5: Audit D – audit fees £39,000, no non-audit fees. Total fees for all services = £39,000 – **notify** (audit fee more than £38,000).
- Sept 20X5: Audit E – audit fees £42,000, non-audit fees £2,000. Total fees for all services = £44,000 – **notify** (audit fee more than £38,000)

### Annual return completed as at 31 March 20X6

Total number of regulated audits notified in annual return (**AC21**): 19 (does not include any groups or collection of entities with the same beneficial owner or controlling party).

The regulated audits include the following clients with the highest total of fees, and highest audit fee respectively:

- Audit C – audit fees £30,000, non-audit fees £18,000. Total fees for all services = £48,000
- Audit E – audit fees £42,000, non-audit fees £2,000. Total fees for all services = £44,000

Amount of the largest total of fees (for all services) receivable from an audit client and its subsidiaries (**AC23**): £48,000

However, '*the firm's existing highest audit fee as notified on the firm's last annual return*' is **£42,000**, being the highest audit fee across the 19 regulated audit clients as at 31 March 20X6.

### New audits during the period starting 1 April 20X6

The firm will need to **notify** any new audit client with audit fee more than **£84,000**.