

Changes to the joint UK Audit Regulations 2022



EFFECTIVE DATE FOR NEW REGULATIONS IS 5 DECEMBER 2022

General

Amendments to the joint UK Audit Regulations ('JAR') are proposed to address the following changes in the audit environment during 2021 and the first half of 2022. These amendments do not include proposed changes under the government white paper published in December 2021 but do include the modification of registration arrangements for PIE auditors as a consequence of an initiative outside government.

It should be noted that regulations in respect of audit in Ireland are now contained in a separate document which was issued by CAI in April 2022.

The changes made are set out below in more detail but can be summarised as;

- The registration regulations have been modified to recognise the additional registration process now required by the FRC in respect of firms that carry out the audits of Public Interest Entities (PIEs).
- The rules around ownership and control of firms have been clarified to address some of the issues arising from complex firm structures and Brexit legislation.
- The period allowed for the exercise of dispensations has been clarified.
- The replacement of ISQC1 by ISQM1 for quality management.
- Some terminology has been amended to reflect changes in the disciplinary framework.

The regulations take effect from 5 December 2022 with no transition period.

Registration of PIE Auditors

An inconsistency in the 2014 EU legislation which was transposed into UK Law by SATCAR 2016 was that the ultimate competent authority (in the UK's case the FRC) had to perform most regulatory tasks relating to PIE auditors and PIE audits, but this was not the case for registration. The Kingman report in 2018 indirectly criticised this inconsistency and the government white paper¹ in March 2021 indicated that consideration was being given to moving the licensing function in respect of PIE auditors to the FRC, and this was affirmed in the follow up paper in May 2022².

After discussions with the Institutes the FRC issued a consultation paper³ in April 2022 under which the bodies would continue to register all Registered Auditors and Responsible Individuals but adding a requirement that those performing PIE audits should also have a top up licence from the FRC. Consequent upon this the FRC have amended their eligibility requirements and the regulations are being modified to conform with them. These do not for the most involve significant changes to the Audit Regulations but rather signpost to the additional process where PIE audits are involved.

¹ Restoring Trust in audit and corporate governance issued March 2021

² Restoring Trust in audit and corporate governance - Government response to the consultation on strengthening the UK's audit, corporate reporting and corporate governance systems issued May 2022

³ Consultations I Financial Reporting Council ([frc.org.uk](https://www.frc.org.uk))

Control of firms by qualified persons

An underlying requirement for independence built into the 8th Directive and the 1989 Companies Act and sustained through paragraph 6(ii) of schedule 10 of the Companies Act 2006 is that those with the audit qualification have control over the decision making of the firm as a whole where that firm is registered for statutory audit. Examples are set out in in paragraph 7 with references in 7(4)(a) and 7(5)(a) to holding a majority of the voting rights. “Majority” is not defined in the act or the Interpretation Act 1978, and the Oxford dictionary defines it as “more than half of a total number”. However, a number of recent ownership models have required percentage voting in excess of 50% for certain decision making. This could mean a firm which though meeting the outline in 7(4)(a)/(5)(a) could fail to meet the over-arching requirement of 6(ii). The wording in the FRC eligibility criteria has been amended to address this lacuna and make clear that the voting test is based on the percentage required for any decision making under the articles, not necessarily 50%+ voting powers.

Dispensations

The process around dispensations is set out at regulations 2.17 to 2.20. The joint regulations for UK and Ireland were open ended to recognise that there were different time periods under UK and Irish law. Now the regulations are UK only the opportunity has been taken to make clear that the dispensations can only apply for up to 90 days on all issues related to eligibility.

Quality management standards

As ISQC1 is due to be superseded by ISQM1 and ISQM2 on 15 December 2022 the references to the quality control standards have been amended for the new standard which was issued by the IAASB in 2020 and adopted by the FRC in July 2021. The title of ISA220 which was changed in July 2021 has also been amended in the regulations.

Appeal process in ICAS

The appeal process in ICAS has been amended so that any initial appeal arising out of the decision of the Audit Registration Committee is referred back to that committee rather than a separate panel. Any subsequent appeal would then go to the appeal tribunal as before.

Detailed changes

The amendments are described individually in the table below. They are set out in the order in which they arise in the document

Reference	Change and reason for change
Cover page	Updated effective date to 5 December 2022 Updated year of copyright reference to 2022
Abbreviations	ISQC1 replaced by ISQM1
Introduction – para 1	Removal of reference to RAB status in Ireland
Introduction – old para 3 and 4	These referred to transitional arrangements under Brexit and are no longer relevant

Introduction – para 3 and 5	Reference to powers of the UK ultimate competent authority augmented to include registration arrangements for PIE audits
Introduction – para 11	The references to ‘quality control’ has been amended to ‘quality management’ in line with ISQM1. Also reference made to the FRC registration process for the audit of PIE entities
Introduction – para 12	Additional sentence included referring to the ICAEW Regulatory and Conduct News
Introduction – How to become and continue to be a registered auditor How to remain a registered auditor	<p>Instruction to pay by cheque removed as no longer business process</p> <p>Additional paragraph added relating to firms wishing to carry out the audit of PIEs</p> <p>Wording added to the firm’s quality management procedures requiring these to be up to date</p> <p>Reminder about changes in audit clients possibly needing FRC registration</p> <p>Reminder about continuing to comply with the eligibility requirements of 2.02 and 2.03</p>
Help and advice	New section added with email details
Introduction – contact details page	Change of contact details for ICAS
Chapter 1: General Guidance to regulation 1.02	Paragraphs referring to the tasks not delegated to the RSBs have been augmented to cover the registration of firms and individuals performing PIE audits
Chapter 1: Transitional arrangements 1.04	Amended as appropriate for the current revision of the Audit Regulations – new effective date 5 December 2022 included
Chapter 1: Notice 1.08(b)	Reference to serving notice by fax deleted as technology now outdated
Chapter 1: Sch 1: Definitions	Removal of introduction which had been in place to address differences between UK and Irish law. Since the regulations are now UK only this statement is no longer relevant
Chapter 1: Sch 1: Definitions ‘Aptitude test’	Inclusion of definition explaining the role of the aptitude test
Chapter 1: Sch 1: Definitions ‘audit’	Modification of guidance referring to reporting requirements for a registered auditor where the firm not appointed auditor
Chapter 1: Sch 1: Definitions ‘audit’	Modification of guidance associated with third country auditors and Crown Dependency audits.

Chapter 1: Sch 1: Definitions 'competent authority'	Modification of wording describing powers of the FRC including reference to the new licensing arrangements for the auditors of PIE entities
Chapter 1: Sch 1: Definitions 'investigation committee'	Added sentence to denote this committee is known as the 'Conduct Committee' by ICAEW
Chapter 1: Sch 1: Definitions 'panel'	[This is no longer required as panels cease to have a regulatory role in ICAS from 5 December 2022]
Chapter 1: Sch 1: Definitions 'principal'	Changed order of types of individual to align with introductory text. No change in meaning.
Chapter 1: Sch 1: Definitions 'public interest entity'	Change of legislative reference and removal of Lloyds
Chapter 1: Sch 1: Definitions 'quality standards'	Replacing 'quality control standards' this redefines audit quality management in the context of ISQM1 and ISQM2 issued by the IAASB which were adopted by the FRC in July 2022 and take effect from 15 December 2022
Chapter 1: Sch 1: Definitions 'Registration Committee'	Amended to reflect the current operational mechanisms of the FRC where it reviews reverted cases under its own processes
Chapter 1: Sch 1: Definitions 'Sole practice'	Introduced to make clear this covers both corporate and non-corporate practices
Chapter 2: 2.01 regulation	'Institute member' changed to 'individual' in line with the FRC Eligibility criteria recognising that registered individuals may not be members of the Institutes
Chapter 2: 2.01 guidance	Insertion of new paragraph to indicate separate process for registration as a PIE audit firm with the FRC
Chapter 2: 2.01 guidance	Rewording of reference to sole practice to make clear a sole practice is also a firm
Chapter 2: 2.01 guidance	Change of guidance to simplify reference (for the purpose of clarity) to the control and ownership requirements for eligibility for approval as a Registered Auditor firm. Changes also indicate that holding the majority of the votes may not in itself be enough to establish control
Chapter 2: 2.02 guidance	Change of reference for rules on ethics as members' handbooks are no longer operational material. References made to the institutes own ethical standards as well as those of the FRC
Chapter 2: 2.02 guidance	Location of PII Regulations changed as Members' Handbook no longer operational
Chapter 2: 2.03 (b) and (c)	Modification of the control tests to make clearer that those with the audit qualification need to control the decision making within a firm.

	Guidance amended to explain further how the majority test should be applied and its exceptions
Chapter 2: 2.03 - guidance	Paragraph explaining the transitional arrangements for EEA auditors amended to the past tense as this is now a historic test.
Chapter 2: 2.06	Obligations amplified to make clear these include abiding by any conditions or restrictions
Chapter 2: 2.10B	New Regulation added setting out the reporting obligation for firms registered with the FRC for PIE audits to supply the FRC with information
Chapter 2: 2.11 (j)	Regulation added clarifying the position with regard to those who may have secured registration through reciprocal membership arrangements
Chapter 2: 2.11 (k)	New regulation requiring firm registered with the FRC for PIE audits to notify the Institute of any changes
Chapter 2: 2.11 guidance	The term “waive” has been replaced by a more accurate explanation of deferral by way of dispensation
Chapter 2: 2.12 guidance	‘Quality control’ replaced by ‘quality management’ to align with ISQM1
Chapter 2: 2.19	The limitation of 90 days for dispensations under paragraph 6(3) of Schedule 10 CA06 has been found on closer examination to cover all aspects of eligibility, so the exception noted in regulation is extended to cover regulations 2.02 (and effectively 4.01) as well as regulation 2.03. The ARC retains discretion on the timescales for remediating non-eligibility related breaches.
Chapter 2: 2.25	New regulation explaining how conflict of regulation on registration would be addressed if it arose between the institute and the FRC.
Chapter 3: Introduction	‘Quality control’ replaced by ‘quality management’ to align with ISQM1
Chapter 3: 3.04 and guidance	Flow of regulation tidied up to read as a consistent regulation. ‘Quality control’ replaced by ‘quality management’ to align with ISQM1
Chapter 3: 3.04 guidance	References to ethics referred to institutes’ websites now as source of record. Superfluous sentence regarding independence removed
Chapter 3: 3.10 & guidance	‘Quality control’ replaced by ‘quality management’ to align with ISQM1
Chapter 3: 3.11 and guidance	Start point amended to date of audit report to align with ICQC1:58R-1

Chapter 3: 3.11 guidance	Paragraph referring to working paper storage medium amended to “digitally” to reflect current technology
Chapter 3: 3.11 guidance	Considerations for time working papers should be retained amplified to include GDPR
Chapter 3: 3.14 guidance	Paragraph on equivalence and adequacy updated to reflect current cross-border agreements (ie none)
Chapter 3: 3.19 guidance	Reference to ISA 220 and its title updated for the July 2021 revision
Chapter 3: 3.20 guidance	Added sentence making clear a review should be undertaken even when the Institute has conducted its own review. Also references to quality control have been amended to quality management in line with ISQM1
Chapter 4: 4.01b	Augmented to include the expectations of the FRC eligibility criteria
Chapter 4: 4.01c	Added to make clear the fit and proper test. This is required elsewhere in the regulations, but it is helpful to have the full requirement of an AI in one place
Chapter 4: 4.01e	Added to make clear the CPD requirements in line with the FRC eligibility criteria
Chapter 4: 4.02 guidance	Extra sentence added to guidance to clarify that a responsible individual must continue meet the criteria for eligibility on an ongoing basis and not just at the time of application for responsible individual status. Additional sentence included reminding of the need for separate registration with the FRC for the audit of IE entities
Chapter 4: 4.07	Regulation amplified to clarify applicability of disciplinary by-laws to non-members
Chapter 4: 4.08 guidance	Clarification that FRC sanctions may be limited to PIE audits and not affect continued audit of other entities
Chapter 5: 5.07 e	Added regulation to make clear the power of the FRC to require the removal of affiliate status
Chapter 6 opening	Sentence added to state the position regarding registration for PIE audits
Chapter 6: 6.05	Compliance with ethical standard added to the list in the regulation for clarity. Also reference to quality control amended to quality management
Chapter 6: 6.13,14,15 & 16	Amended to reflect the change of ICAS’s framework and removing references to ‘panel’
Chapter 6: 6.14 guidance	Paragraph references amended to reflect new chapter 8 for ICAS

Chapter 7: 7.02 guidance	The power of the registering body with regard to sanctions is stated as 'imposing' rather than 'making' for clarification
Chapter 7: 7.02A	New regulation indicating that FRC enforcement decisions are to be treated as decisions of the audit registration committee
Chapter 7: 7.02A guidance	Indication that the FRC may impose additional sanctions and restrictions on firms registered with them for PIE audits
Chapter 7: 7.03(e)	Amended to reflect change in ICAS review framework
Chapter 7: 7.09 guidance	Reminder that 7.04A falls within this table as well
Chapter 8: 8.08a(2) 8.19a(2)	Quality control replaced by quality management. Ethical standards added for completeness
Chapter 8: 8.11 - end	Replaced by amended regulations for ICAS that refer initial appeals back to the Registration Committee rather than a separate panel
Chapter 9: 9.00A	Additional regulation added making clear that costs not directly charged to a registered auditor under investigation but rather recharged to the RSB can be recovered by that RSB from the registered auditor
Chapter 9: 9.01 guidance	Guidance amended for the ICAEW Regulation handbook which replaces a number of the Disciplinary Bye-laws and should take effect late in 2022
Part 1 – guidance F&P 13	Quality control replaced by quality management
Part 2 – guidance - 3	Word "cost" removed as not relevant to the requirement of ISQM1.
Part 2 – guidance 8, 10, 11, 16, 25, 29	Quality control replaced by quality management. Also ISQC1 replaced by ISQM1