

## ICAEW proposed changes to the audit regulations (Lecture A847 – 8.54 minutes)

ICAEW has proposed to make some changes to its UK Audit regulations and Guidance to address three policy areas:

- Rules around CPD
- Rules about alternate registered auditors
- Rules on sanctions

Comments on these proposals closed on 27 October 2023 and it is expected that the revised regulations will come into force early in 2024.

### 1.1 CPD

The new rules around CPD have been well-publicised. This is off the back of a request by the Irish Auditing and Accounting Supervisory Authority (IAASA) and the FRC requesting more rigorous regulation around CPD and the record-keeping of this by audit staff and principals.

The new CPD rules came into effect on 1 November 2023.

There are three categories under the new regime: Category 1, 2 and 3. Members that work in practice but do not perform any of the specified roles for category 1 or 2 will fall into category 3.

Examples of roles that would result in category 1 classification include:

- Acting as responsible individual/key audit partner/engagement partner or spending 30% or more of your professional time on:
  - audits of public interest entities (PIEs);
  - major local audits;
  - audits of central government departments or devolved administrations; or
  - CASS audits.

It should be noted that each of these categories are assessed individually, not in the aggregate.

- Leading, managing, or spending 30% or more of your professional time on delivery of internal audit or assurance services to PIEs, a major local audit entity or central government departments or devolved administrations.
- Working in an audit regulatory role, including monitoring and enforcement, within an accountancy professional body, a training organisation, or an oversight body.
- Being an insolvency practitioner who is authorised to take on insolvency appointment.

- Providing direct or indirect tax services to large companies, listed or international companies or groups, or high net-worth individuals.
- Spending 30% or more of your professional time providing ESG assurance services to PIEs, local bodies where the audit is a major local audit, central government departments and devolved administrations.

Examples of roles that would result in category 2 classification include:

- Acting as responsible individual/key audit partner/engagement partner or spending 30% or more of your professional time on large company audits.
- Acting as engagement partner or spending 30% or more of your professional time on the audit of public sector bodies (excluding those which are in category 1 classification).
- Spending 30% or more of your professional time working on performance or value for money audits of public sector bodies.
- Leading, managing, or spending 30% or more of your professional time on the delivery of internal audit or assurance services to large companies or public sector bodies (excluding those which are in category 1 classification).
- Being an insolvency practitioner who holds non-appointment taking insolvency licences.
- Spending more than 30% of your time on
  - insolvency or restructuring engagements which are not related to insolvency appointments;
  - forensic accounting work; or
  - ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* or ISRS 4400 *Agreed-Upon Procedures* work on behalf of a recipient of a grant from a public sector body as defined by ONS (these categories are assessed individually, not in the aggregate).
- Undertaking probate work.
- Undertaking DPB (Investment Business or Consumer Credit) licensed activities.
- Provision of corporate finance advice to individuals, public sector bodies or businesses.
- Provision of direct or indirect tax services to individuals or entities outside the category 1 classification.
- Spending less than 30% individually, but more than 40% collectively on:
  - PIE audit engagements;

- major local audits;
- audits of central government departments or devolved administrations;
- CASS audits;
- large company audits; or
- audits or performance of value for money audits of public sector bodies.

The CPD requirements for members in practice are shown in the following table:

Category	Total hours	Verifiable hours
1	40	30
2	30	20
3	20	10

### Exemptions

There are only limited exemptions available to the new CPD policy:

- ICAEW members who are not working in accountancy, finance or legal services or that have not worked at all in a CPD year are exempt (although the basis of the exemption should still be documented).
- Being a director of a micro-entity providing this is the only role that would bring an individual into scope.
- Reciprocal members (those who have membership because of a reciprocal agreement with another body), who are not responsible individuals or key audit partners, and who have satisfied the CPD obligations of their home professional body.
- Holders of the ICAEW Business and Finance Professionals designation and are not regulated by the ICAEW for certain activities (although you will still be required to carry out at least 1 hour of ethics training and also undertake any training to meet these identified development needs).

### 1.2 Alternate registered auditors

The appointment of alternates is currently compulsory across all three institutes for firms that hold client money. However, this new regulation will extend to audit. The introduction of compulsory alternates for sole practices will help to reduce risk both to the consumer and the practice. As part of the firm's overall succession planning, it will help to avoid uncertainty if the practitioner falls ill or sadly dies.

ICAEW recognises that arrangements for the appointment of an alternate may take some time and hence there is a transitional period of six months prior to the obligation becoming compulsory.

### **1.3 Sanctions**

Historically, the Audit Registration Committee (ARC) has applied regulatory penalties and restrictions to firms and not to responsible individuals (RIs).

The only options currently available to the ARC regarding an RIs actions are removal of RI status or referral to the Conduct Department for disciplinary investigation. Both of these options will still be available to the ARC under the updated audit regulations.

However, there is an implicit requirement in the FRC's delegation agreement for the powers of the FRC set out in The Statutory Auditors and Third Country Auditors Regulations (SATCAR) 2016 to be mirrored in those of the RSBs. As the FRC often apply penalties and restrictions to RIs as well as firms, this is a power which should be recognised within the audit regulations. In addition, the new requirements on CPD where the responsibility falls equally on the firm and individual require that the individual, as well as the firm, is held to account through the sanctions available.