

The ACCA logo is a red square with the letters 'ACCA' in white, bold, sans-serif font. The background of the entire page is a low-angle, black and white photograph of a modern glass skyscraper, with the grid of windows and dark structural beams creating a strong geometric pattern that recedes into the distance under a cloudy sky.

ACCA

Regulatory Board Policy Statement and Regulatory Guidance

Audit monitoring and ACCA's approach
to non-compliance with auditing standards

Think Ahead

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Regulatory Board policy statement

PS1 BACKGROUND

- 1.1 In the UK, ACCA regulates the conduct of statutory auditors in accordance with the requirements of the Companies Act and with the Delegation Agreement in place with the Financial Reporting Council ('FRC') which sets out the terms under which certain regulatory tasks, including 'quality assurance' or audit monitoring, are delegated to ACCA as a Recognised Supervisory Body ('RSB').
- 1.2 In Ireland, ACCA is a Recognised Accountancy Body ('RAB') with assigned responsibility under the Companies Act for specific functions including quality assurance. ACCA's performance of assigned tasks is overseen by the Irish Auditing & Accounting Supervisory Authority ('IAASA').
- 1.3 Under both regimes, the Board recognises that ACCA is charged with protecting the public and maintaining confidence in the profession, and fully supports the objective of driving up audit quality.

PS2 OVERVIEW OF APPROACH

- 2.1 Under the frameworks described in PS1, ACCA is required to adopt a risk-based approach to audit monitoring. This approach takes into account the risks of non-compliance with ACCA's Rules, the size and complexity of the audit firm and of its audit clients, the outcomes of past monitoring reviews and other intelligence about the firm. ACCA's primary response to elevated risk is to accelerate the timing of the next monitoring review (the statutory cycle is six years for both UK and Ireland). Higher risk reviews therefore take place on either a four-year or a two-year cycle, although reviews ordered by the Regulatory Assessor or Admissions and Licensing Committee, being of the highest risk, are typically 12-18 months after the previous review.
- 2.2 ACCA draws its conclusions on the extent of compliance with auditing standards based on the inspection of a sample of completed audit files selected by ACCA and provided to it by the firm. The onus is on the firm to ensure that, at the point it provides the audit files to ACCA for inspection, they contain all audit evidence and relevant documentation upon which it relied in formulating its audit opinion. It is not generally appropriate for ACCA to extend its inspection to, or for any Committee of ACCA to place reliance on, information that was not on the audit files at the time of the original inspection because of the risk that evidence might be generated after the event and in response to the deficiencies communicated to the firm during the monitoring review.
- 2.3 Appropriate documentation of the audit work by the firm is of critical importance to ACCA's assessment of compliance with auditing standards as it provides evidence that the audit was planned and performed in accordance with International Standards on Auditing ('ISAs'). Audit documentation is not optional: it is an intrinsic and integral part of the audit process rather than something that simply follows it. In particular, ISA 230.8 provides that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor [such as those employed by ACCA's Compliance department], having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, the results of those procedures and the audit evidence obtained, significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. For smaller entities, ISA 230 refers to the overriding requirement in paragraph 8 to prepare audit documentation that can be understood by an experienced auditor, as the audit documentation may be subject to review by external parties for regulatory or other purposes. Accordingly, in determining the quality of a firm's auditing ACCA adopts the approach that, regardless of the size of the entity, there is no distinction between failure to document audit work adequately and not performing it in the first place.

PS3 PRESUMPTION OF COMPETENCE

- 3.1 All audit principals in a firm hold an ACCA practising certificate with audit qualification, or equivalent issued by another body. In applying for an audit qualification, an individual is required to possess a combination of theoretical knowledge (demonstrated by successfully completing ACCA's professional qualification, including achieving a pass in the auditing papers) and recent supervised practical experience in audit work in an approved employer. Once obtained, an engagement partner must demonstrate continued eligibility to hold the audit qualification through a combination of relevant audit-related continuing professional development, including meeting the outcomes-focused requirements of International Education Standard 8, and on-going practical experience.

- 3.2 ACCA therefore adopts the position that the public is entitled to expect that an individual with an audit qualification who holds themselves out as available to provide audit services is competent to undertake that work. If at any time an individual or firm falls significantly short of complying with the requirements of auditing standards, permitting them to continue auditing whilst they bring their competence up to the required level does not adequately protect the public. Accordingly, ACCA will recommend that the Admissions and Licensing Committee withdraws the individual's audit qualification and imposes a test of competence before any future reapplication will be considered.

PS4 GENERAL APPROACH TO NON-COMPLIANCE

- 4.1 ACCA adopts a constructive and educational approach when conducting audit monitoring reviews with the objective of assisting firms to make any necessary improvements in compliance with auditing standards.
- 4.2 Nevertheless, ACCA is committed to driving improvements in audit quality by way of a robust approach to monitoring compliance with the requirements of auditing standards, utilising the range of tools at its disposal in a way that is proportionate to the facts of the case. This approach is endorsed by FRC and IAASA and its effectiveness, as reflected by the standard of auditing in ACCA firms, is subject to independent oversight.
- 4.3 ACCA reports all significant non-compliance with auditing standards found at a monitoring review to the firm. Consequently, as a minimum, the firm will be required to respond in writing to ACCA, identifying the root cause for each reported deficiency and setting out what action it has taken, or is intending to take by a specified date, to prevent a recurrence of the deficiencies. ACCA reviews the quality and likely effectiveness of the action plan before completing a risk assessment which determines the overall outcome of the current review and the timing of the next monitoring review.
- 4.4 The action plan is the firm's opportunity to demonstrate insight and to provide assurance that it has both the necessary capability and willingness to make the required improvements within a reasonable time. If ACCA concludes that the action plan is inadequate, the firm will generally be given one opportunity to submit a revised plan. Ultimately, if a firm fails to submit an action plan which ACCA regards as satisfactory, ACCA will take further action according to the circumstances:
- (i) if there was one or more audit files inspected on which the standard of audit work was found to be unsatisfactory, ACCA will refer the matter either to the Regulatory Assessor or to the Admissions and Licensing Committee for appropriate regulatory action.
 - (ii) if all of the audit files inspected were found to be of a satisfactory standard with no significant or serious deficiencies, ACCA will accelerate the next review so that it takes place in two years' time and will apply a charge at standard rates to cover the cost of that review.
- 4.5 Similarly, if the engagement partner(s) demonstrate insufficient insight into the audit failings or persist in disputing ACCA's findings and the significance thereof without providing sufficient and appropriate evidence to rebut those findings, there will be doubts about the willingness of the firm to make the necessary improvements in its audit work even if it belatedly accepts ACCA's findings. In these circumstances, withdrawal of the audit certificates will be considered.

PS5 CHANGE IN RISK ASSESSMENT

- 5.1 Notwithstanding the timing of the next review determined in accordance with the approach described in PS2.1 and PS4.3 above, ACCA may at any point amend that timing as a result of a change in legal or regulatory requirements, or in response to other risk factors applicable to the firm.

PS6 AUDIT MONITORING COMMITTEE

- 6.1 The Audit Monitoring Committee ('AMC') has responsibility for discharging the function of audit monitoring - including reviewing the results of audit inspections, in particular those which result in an unsatisfactory grade - and for ensuring that inspections are carried out to a consistent standard. It does not have powers to withdraw, suspend or impose conditions on a certificate, which remain the preserve of the Admissions and Licensing Committee and the Regulatory Assessors. The AMC can, however, refer any case to the Regulatory Assessor or to the Admissions and Licensing Committee if it believes such action is appropriate. The decisions of the AMC are not publicised as they do not constitute regulatory action.

- 6.2 Each month, the AMC reviews a number of audit monitoring cases and determines the overall outcome, including the timing of the next monitoring review. The cases reviewed include all those where there was a majority of unsatisfactory audit files (subject to the exception in PS6.3), plus those where the firm has failed to provide a suitable action plan as set out under PS4.4(ii) above, together with a sample of other cases.
- 6.3 The AMC does not review cases which ACCA has already determined should be referred to the Regulatory Assessor or Admissions and Licensing Committee.

PS7 FIRST REVIEW

- 7.1 The approach taken by ACCA following a firm's first audit monitoring review will depend on the standard of the audit work found on the files inspected.
- (i) If, on any of the files inspected there is little or no evidence that the firm has attempted to comply with auditing standards, regardless of the standard of work on the other files inspected ACCA is likely to refer the matter to the Admissions and Licensing Committee with the recommendation that it withdraws the audit certificates. This approach is appropriate because such a serious failure to comply with applicable standards raises concerns about the competency and/or integrity of the auditor and hence has implications for the fitness and propriety of the certificate holder.
 - (ii) If all of the files inspected are unsatisfactory but there is some attempt on each to comply with auditing standards, ACCA will either refer the matter to the Admissions and Licensing Committee with the recommendation that it withdraws the audit certificates, or require the firm to submit an action plan and then refer the matter to the Regulatory Assessor with the recommendation that he imposes conditions on the audit certificates. The approach taken by ACCA will largely depend on the pervasiveness of the serious deficiencies and the existence of any other risk or mitigating factors.
 - (iii) If there is a majority of unsatisfactory files, subject to provision of a suitable action plan ACCA will in general undertake the next monitoring review in two years' time and apply a charge for that review. This approach is appropriate because the firm has demonstrated on at least one file that it has the ability to achieve the required standard but may require time to strengthen its quality controls to ensure it consistently achieves a satisfactory standard. All such cases are reviewed by the AMC.
 - (iv) If there is a minority of unsatisfactory files, subject to provision of a suitable action plan, ACCA will in general undertake the next monitoring review in four- or six-years' time depending on the variation in the standard of audit work together with an assessment of any other risk factors. A sample of such cases is reviewed by the AMC.
 - (v) If all the files inspected were found to be of a satisfactory standard with no significant or serious deficiencies, subject to provision of a suitable action plan and an assessment of any other risk factors, ACCA will in general undertake the next monitoring review in six years' time.
- 7.2 Where a suitable action plan is requested but not provided, ACCA will follow the approach set out in PS4.4 above.

PS8 THE SIGNIFICANCE OF THE ACTION PLAN

- 8.1 Except for the first review following audit registration, at each monitoring review conducted by ACCA the firm will have produced an action plan in response to the findings of the previous review. The action plan process underpins the audit monitoring approach and ACCA regards it as the principal tool in improving overall standards of audit quality.
- 8.2 It is therefore extremely important, once it has provided an action plan which ACCA has assessed as suitable, that the firm ensures that it implements the planned actions by the date indicated. The onus is on the firm and its engagement partners and ACCA will assess the effectiveness of implementation based on the overall standard of compliance with auditing standards at the subsequent review. In some instances, ACCA will look for evidence that the firm has rectified specific deficiencies identified at the previous review but it is often not possible to make direct comparisons due to changes in the firm's audit portfolio and the material audit areas/key risks on each assignment.

- 8.3 In considering any matter before them, the Regulatory Assessor and the Admissions and Licensing Committee shall take into account the quality of the firm's action plan, if any, submitted subsequent to the recent monitoring review and the extent to which the firm has made effective improvements in audit quality as a result of its previous action plan(s). The latter is a critical indicator of the firm's ability and commitment to implement any future planned improvements and the Assessor or Committee should be wary of accepting the firm's assurances that it will make the necessary improvements in future when it has been provided with a previous opportunity to do so and failed to take that opportunity.

PS9 SUBSEQUENT REVIEWS

- 9.1 There are two scenarios when ACCA conducts a second or subsequent review and the firm fails to achieve a satisfactory standard of audit work.

Consistent previous satisfactory standard of audit work

- 9.2 A firm that has consistently demonstrated a satisfactory standard is expected to maintain that standard and make further improvements by preventing a recurrence of any deficiencies reported to it previously. If the firm does not maintain a satisfactory standard on all files inspected, then according to its monitoring history and that of its engagement partners, the variation in standard of the audit work at the current review and the effectiveness of implementing its previous action plan(s), ACCA will either:
- (i) subject to provision of a suitable action plan, accelerate the next monitoring review to either the two- or four-year cycle but take no further action (subject to review by the AMC in some cases); or
 - (ii) subject to provision of a suitable action plan, refer the matter to the Regulatory Assessor with the recommendation that they impose conditions on the audit certificates; or
 - (iii) refer the matter to the Admissions and Licensing Committee with the recommendation that it withdraws the audit certificates and imposes conditions on any future reapplication by the engagement partners/firm.
- 9.3 For cases referred to them by ACCA, the Regulatory Assessors will normally make a decision that requires the audit-qualified principals to be subject to an accelerated monitoring review at a cost to their firm and which includes a warning that failure to make the necessary improvements in the level of compliance with auditing standards will jeopardise their and their firm's continuing audit registration. The Assessor has the power, according to the facts of the case, to make alternative decisions as set out in ACCA's Regulations.

Previous unsatisfactory standard of audit work

- 9.4 All firms are expected to achieve, and then maintain, a satisfactory standard of audit work in order to remain eligible for audit registration. Where a firm has an unsatisfactory outcome to two successive monitoring reviews, there are very few circumstances in which it would be appropriate for the firm and its partners to avoid withdrawal of their audit certificates. The firm has been allowed an opportunity to improve by implementing its own action plan, and to show some slight improvement but not achieve an overall satisfactory standard of work is not sufficient because of the presumption of competence explained in PS3.
- 9.5 In cases where a firm fluctuates between an overall satisfactory and unsatisfactory standard, there will be serious concerns about its capability and willingness to sustain a satisfactory standard. It will have developed at least one previous action plan, and in some cases more than one, but the inspection findings indicate that the firm has not effectively implemented its planned actions. ACCA will consider the firm's and engagement partners' monitoring history with particular focus on the number and age of past unsatisfactory review outcomes before deciding on the appropriate action. Although there will be exceptions, in the majority of cases ACCA is likely to refer the matter to the Admissions and Licensing Committee with the recommendation that it withdraws the audit certificates.
- 9.6 Unless the Committee is satisfied that there are clear exceptional reasons for not doing so, it will normally follow this policy and ACCA's recommendation and withdraw the audit certificates. In addition, the Committee will normally place conditions on the engagement partners, such as passing a test of competence and undertaking appropriate audit related CPD, before being permitted to make any future reapplication for the certificates.

PS10 APPROPRIATENESS OF CONDITIONS

- 10.1 If the Regulatory Assessor (or the Admissions and Licensing Committee, if it decides not to withdraw the audit certificates but impose conditions instead) is minded to impose conditions in addition to those described in PS9.3, it is very important to devise conditions that are practical, address a specific circumstance or risk factor, and are consistent with other elements of the decision. In particular, the Assessor or Committee will need to articulate clearly in their written reasons the purpose of the condition and the outcome it is designed to achieve.
- 10.2 Historically, ACCA's regulatory approach relied significantly on the performance of 'hot' file reviews (i.e. undertaken before the audit report was signed) by an independent third party such as a training company. Whilst in a number of cases this was effective in bringing about an improvement in audit quality by the time of the next monitoring review, the approach presented a number of issues. In particular, it was very difficult for the Compliance department to establish the standard of the firm's own work before the file was 'hot' reviewed. In addition, data collected over a number of years indicated that a significant proportion of firms deteriorated after being released from the requirement to have their files 'hot' reviewed.
- 10.3 As a result, ACCA does not consider that 'hot' reviews are an effective tool in delivering sustained improvements in audit quality and they are not recommended as part of any conditions imposed on the audit certificates. Therefore, the Assessor or Committee should only impose 'hot' reviews in the most exceptional of circumstances, with full reasons for doing so outlined in any decision. The foundation of ACCA's current approach is the production and implementation of a suitable action plan, with the responsibility clearly resting with the engagement partners to demonstrate the required competence and commitment to compliance with auditing standards without undue reliance on third parties.

PS11 WITHDRAWAL OF CERTIFICATES

- 11.1 In accordance with this policy, ACCA may at any time and regardless of the outcome of previous monitoring reviews refer a matter to the Admissions and Licensing Committee to consider withdrawal of the audit certificates. There is no presumption or requirement that the firm or its partners must first have been subject to previous regulatory action, such as conditions imposed by the Regulatory Assessor, before the Committee may order withdrawal of the certificates, as the over-riding requirement is protection of the public and maintenance of proper standards of conduct.
- 11.2 ACCA's Authorisation Regulations ('ARs') set out the procedure to be followed at hearings of the Admissions and Licensing Committee. The Committee is concerned solely with the eligibility of the firm or individual to continue to hold the audit certificate and the process is not subject to the requirements of the Complaints and Disciplinary Regulations which govern the conduct of Disciplinary Committee hearings.
- 11.3 In particular, cases concerning the conduct of audit work are brought under AR 5(2)(f) which provides that the Committee may withdraw, suspend or impose conditions upon a certificate if:
"...it is notified or becomes aware that a holder of a certificate or any of its partners, members, directors or controllers has committed a material breach of any of these regulations or other rules and regulations or codes of practice to which he or they are subject (or were subject prior to 1 January 2014) in the carrying on of the activities to which the certificate relates or authorises;"
- 11.4 In applying this provision, the Committee is entitled to rely on the findings of the monitoring review set out in ACCA's report as establishing non-compliance with the requirements of auditing standards (including the principle on audit documentation that "if it is not written down it has not happened"). In the absence of sufficient, reliable and credible evidence to the contrary the Committee should on the balance of probabilities find those matters set out in ACCA's report proved. The primary responsibility of the Committee is, based on those established facts, to determine the appropriate course of action in accordance with this policy and the Regulatory Guidance.

PS12 APPROACH TO NON-COOPERATION WITH THE MONITORING PROCESS

- 12.1 ACCA's Global Practising Regulations provide that holders of all types of practising certificates and licences issued shall be subject to monitoring by ACCA. The Regulations further provide that certificate-holders shall co-operate with ACCA in its monitoring and enforcement of compliance with these regulations and with the bye-laws. Further, members must supply ACCA with all the information necessary to enable it to complete its monitoring process efficiently.
- 12.2 These requirements are very important in respect of audit monitoring where there are statutory and risk-based review cycles to observe. Accordingly, where the Compliance department is experiencing difficulty in persuading a firm to accept a monitoring review on or before its due date, or in cases where a firm postpones a reviewer otherwise prevents by action or inaction the completion of the review within a reasonable time, ACCA will consider the need to refer the matter to the Admissions and Licensing Committee with the recommendation that the Committee suspends the audit certificates until such time as ACCA is able to complete the monitoring process (or imposes conditions which adequately protect the public in the interim).
- 12.3 ACCA takes a proportionate approach to application of these provisions and will take into account the specific circumstances pertaining to the firm and the engagement partners. One short postponement may therefore be appropriate where the firm can show reasonable grounds. Pressure of work is not an acceptable reason to defer a monitoring review because ACCA, the oversight bodies and the Regulatory Board regard the completion of monitoring at the appropriate time to be a fundamental obligation on certificate holders.

PS13 EFFECTIVE DATE OF ORDERS AND DECISIONS

- 13.1 The primary purpose of withdrawing, suspending or imposing conditions on an audit certificate is to protect the public because of the poor standard of audit work and serious concerns about the competency of the auditor. It therefore follows that in making such an order or decision, the Admissions and Licensing Committee or Regulatory Assessor should, in the interests of the public, direct that it has immediate effect. If the Committee or Assessor considers that immediate withdrawal is not necessary, they should provide full written reasons for such a decision addressing specifically (but not limited to) how the public is protected in the absence of such a direction.
- 13.2 For cases concerning Republic of Ireland statutory auditors, under law the effective date can only be upon determination of any appeal process. Therefore, in the event that the Admissions and Licensing Committee orders the audit certificates to be withdrawn, in order to afford the public the same level of protection as immediate withdrawal, ACCA shall make an application to the Committee that it immediately reconstitutes itself as an Interim Orders Committee (IOC). ACCA will recommend that the IOC, as a minimum, imposes the condition that the principal(s) and the firm are prevented from issuing any audit reports pending determination of the appeal process.

PS14 PREPARATION OF WRITTEN REASONS

- 14.1 The Regulatory Assessors and Admissions and Licensing Committee shall ensure that their written reasons clearly explain how, and why, they have arrived at their decision. This is particularly important in cases where the Assessor or Committee deems it appropriate to depart from ACCA's recommended action or from the normal approach set out in this policy statement and the accompanying Regulatory Guidance. This explanation assists ACCA and the firm in understanding the reasoning and in some cases contributes to effective implementation of the decision as it provides additional context for aspects which may otherwise not be entirely clear.

PS15 FLEXIBILITY OF APPROACH

- 15.1 This policy allows for some flexibility in application depending on the facts of each case. Accordingly, ACCA's Compliance department, the Regulatory Assessors and the Admissions and Licensing Committee will consider all of the relevant information before deciding on the appropriate course of action to achieve the desired regulatory outcomes set out in PS1.3.

Regulatory guidance

SECTION 1: INTRODUCTION

- 1.1 This Regulatory Guidance ("Guidance") supersedes the corresponding section of the Guidance for Regulatory Orders, originally issued on 2 February 2009 and last updated in May 2018. It covers:
- matters concerning the eligibility of a firm for an auditing or other certificate or an individual for a practising certificate, audit qualification or other certificate; or
 - the conduct of audit and other regulated work found at a monitoring review.
- 1.2 The Guidance has been developed by ACCA's Regulatory Board, which oversees the regulatory and disciplinary committees and reports to ACCA's Council on the fairness and impartiality of the arrangements in place. The purpose of the Guidance is to assist the Admissions and Licensing, Interim Orders and Appeal Committees ("the Committee") and the Regulatory Assessors ("Assessor") in the exercise of their powers. It is designed to manage regulatory risk, provide transparency of policies and procedures and ensure consistency of approach.
- 1.3 Part B of the Guidance reflects the approach to those firms or individuals that fail to comply with the requirements relating to regulated work and in particular auditing standards. It is based on the principles and practice set out in the Regulatory Board's Policy Statement ("PS") 'Audit monitoring and ACCA's approach to non-compliance with auditing standards' which was substantially revised in November 2019.
- 1.4 The Guidance is for use by:
- ACCA staff when they are considering the appropriate action to take, for example based on the outcome of a monitoring review the Committee and the Assessor when they are considering what order or decision to make
 - ACCA certificate or licence holders so that they are aware, prior to any decision being made, of what the Committee's or Assessor's range of options are and which matters the Committee members or the Assessor may take into account when coming to a decision
- 1.5 The Guidance is a 'living document' which will be updated and revised when the need arises. However, as it forms part of ACCA's 'review methodology', the Guidance is reviewed at least annually and updated as necessary.

SECTION 2: THE ROLE AND REGULATORY POWERS OF THE COMMITTEE AND ASSESSOR

2.1 Introduction

- 2.1.1 The Committee and the Assessors are independent of ACCA and exercise their own judgement in making decisions:
- according to the established facts and supporting evidence provided
 - with particular regard at all times to the regulatory framework set out in ACCA's Rulebook, policy statements issued by the Regulatory Board and any other relevant guidance
 - taking account of the regulatory risk posed by the certificate or licence holder's history
 - in accordance with the standard of proof, which on ACCA regulatory matters is on the balance of probabilities
 - balancing the need to maintain public confidence in the profession with appropriate proportionality.

2.2 The role of the Committee and Assessor

- 2.2.1 The Admissions and Licensing Committee is responsible for considering applications for a practising certificate, auditing certificate and other licences (dealt with in a separate guidance document). Provided an application meets the criteria specified from time to time by the Committee, the power to grant the application is usually delegated to ACCA staff.

- 2.2.2 The Committee is also tasked with considering cases concerning continuing eligibility for a certificate or licence, and in particular cases concerning the conduct of regulated work following an unsatisfactory outcome to a monitoring review, where ACCA concludes that withdrawal of the relevant certificate(s) should be considered.
- 2.2.3 The Assessor has the delegated power of the Committee to impose conditions on a certificate and/or conditions on a future reapplication for a certificate that the holder has voluntarily relinquished.

2.3 Purpose of an order

- 2.3.1 It is a settled principle of law that the purpose of orders issued by a professional regulatory body is to:
- protect the public
 - maintain public confidence in the profession
 - maintain proper standards of conduct
- 2.3.2 It is vitally important that the holder of a certificate or licence issued by ACCA meets the high standards expected by the public. The function of the Assessor and Committee is to take appropriate action to ensure that the holder is competent to undertake the work and will maintain proper standards of conduct in future, thereby protecting the public and maintaining public confidence in the profession. Their function is not to discipline the firm or individual for any past wrongdoing of which it or they may be culpable.
- 2.3.3 It was noted in *Bolton v The Law Society* [1994] 2 ALL ER 486 that the reputation of a profession as a whole is more important than the fortunes of an individual member of that profession.

2.4 Regulatory powers

- 2.4.1 In accordance with Authorisation Regulation 7(3) the Assessor may either:
- consider that no regulatory action is necessary;
 - impose conditions on the holder of a certificate; or
 - refer the case to the Committee (primarily, if they decide that the withdrawal or suspension of a certificate should be considered).
- 2.4.2 In accordance with Authorisation Regulation 6(16)(a) the Committee has the following basic options for an existing certificate:
- dismiss or refuse the application i.e. make no order;
 - order that the certificate be withdrawn;
 - suspend the certificate;
 - impose conditions on the certificate;
 - specify that no future application for a certificate by the relevant person will be entertained for a specified period or until the occurrence of a specified event.
- 2.4.3 The last point above is usually imposed by the Committee in conjunction with an order to withdraw the certificate. In the event that the holder voluntarily relinquishes a certificate before the matter can be considered, Authorisation Regulations 6(16)(a) and 7(4) respectively empower the Committee and the Assessor to impose similar conditions on any future application for the certificate.

Conditions

- 2.4.4 The imposition of conditions is an appropriate alternative to withdrawal or suspension of a certificate where it is clear that the conditions are the minimum necessary to protect the public. The Assessor or Committee must ensure that any conditions they devise are:
- enforceable;
 - addressed to the certificate holder and not third parties (including ACCA);
 - relevant, in that they address a specific circumstance or risk factor;
 - necessary (see proportionality below);
 - workable, in that they are capable of practical application by the certificate holder and are consistent with other elements of the decision; and
 - written in such a way that compliance can be easily verified.

2.5 Proportionality

- 2.5.1 In deciding on the appropriate decision, the Assessor or the Committee must weigh the need to fulfil the purpose of a regulatory order set out in paragraph 2.3.1 (i.e. to safeguard the public interest) against the interests of the certificate holder.
- 2.5.2 Any order and/or conditions imposed should, taking into account all the circumstances of the case, be proportionate to the future licensing risk of the firm or individual failing to:
- carry out work in accordance with the applicable requirements
 - meet the eligibility requirements for a certificate
- 2.5.3 In order to ensure that the decision (including any conditions imposed) is the minimum necessary to achieve the purpose, the Assessor or Committee will need to consider:
- the extent of any evidence provided by the firm or individual which successfully rebuts any of the findings of the review that are critical to the determination of its overall outcome
 - the credibility and reasonableness of any explanation offered for the inadequate performance of the relevant work
 - the level of insight demonstrated by the holder in relation to the findings, in particular the extent and significance of non-compliance with applicable standards
 - the willingness and ability of the holder to achieve and maintain the standard of work expected (expressed, where applicable, in a suitable action plan supported by a root cause analysis)
 - the extent to which the firm or individual has effectively implemented any previous action plan and the implications for effective implementation of any current or future action plan
 - if the firm or individual has taken action to remedy the inadequate performance of the relevant work since the most recent monitoring review, why appropriate action was not taken previously and whether the apparent improvement can be relied on as effective, representative and sustainable
 - the action the firm or individual has or intends to take where they appear to be ineligible for a certificate, the occurrence of any previous similar eligibility issues and the extent to which any previous remedial action by the certificate holder was sustained.

2.6 Publicity

Withdrawal, suspension or conditions on an existing certificate

- 2.6.1 Authorisation Regulation 6(14)(c)(i) provides that, in the event that the Committee makes an order to withdraw, suspend or impose conditions on a certificate pursuant to regulation 6(16)(a)(ii) to (iv), ACCA *shall* publish the same, together with the reasons for the Committee's decision, in whole or in summary form, naming the relevant person, as soon as practicable.
- 2.6.2 Authorisation Regulation 7(6)(a) provides that, save where the Assessor determines upon the application of either party or upon receiving representations from any third party from whom the Assessor considers it appropriate to hear that the particular circumstances of the case outweigh the public interest in publishing the decision made by the Assessor under regulation 7(3), all such decisions shall be published, together with the reasons for the same in whole or in summary form, naming the relevant person, as soon as practicable in such manner as ACCA thinks fit.

Conditions on future reapplication for a certificate

- 2.6.3 Authorisation Regulation 6(14)(c)(iii) provides that, in the event that the holder relinquishes the certificate before the hearing takes place, details of that fact and of any consequential orders made by the Committee shall be published, together with the reasons for the Committee's decision, in whole or in summary form, naming the relevant person, as soon as practicable.
- 2.6.4 Similarly, save where the circumstances in regulation 7(6)(b)(ii) exist, regulation 7(6)(b)(i) provides that, in the event that the holder relinquishes the certificate before the Assessor makes a decision, details of that fact and of any consequential decisions taken by the Assessor shall be published, together with the reasons for any such consequential decision in whole or in summary form, naming the relevant person, as soon as practicable in such manner as ACCA thinks fit.

General

- 2.6.5 In addition to the specific circumstances set out above, Authorisation Regulation 6(14) sets out the requirements in relation to publicity in other specified circumstances following a hearing of the Committee. ACCA also publishes separate guidance on publicity, for use by all of ACCA's disciplinary and regulatory committees, which is updated from time to time as the need arises.

Part A: Eligibility for certificates or licences

SECTION 3: THE APPROACH ADOPTED BY ACCA

3.1 Eligibility for an auditing certificate

- 3.1.1 The eligibility requirements for a firm's auditing certificate are set out in regulation 5 of the United Kingdom Audit Regulations 2016 and regulation 5 of the Republic of Ireland Audit Regulations 2017, contained in Annex 1, Appendix 1 and Annex 2, Appendix 1 respectively of the Global Practising Regulations (collectively, the "Audit Regulations").
- 3.1.2 Where a firm applies for, or already holds, an auditing certificate but does not appear to meet one or more of the requirements ACCA refers the application or matter to the Committee for consideration. Firms may apply for waivers of the application of some, but not all, regulations and this is dealt with in another guidance document.
- 3.1.3 Compliance with certain of the requirements is well defined, for instance on professional indemnity insurance and practice continuity arrangements. However, for certain requirements the facts may be open to different interpretations and these are dealt with separately below.

Control by qualified persons

- 3.1.4 The meaning of 'firm controlled by qualified persons' is set out in regulation 7 of the Audit Regulations for both the UK and Ireland, although the requirements differ slightly.
- 3.1.5 ACCA will consider the substance of the arrangements the firm has in place, not just the legal form. Where it identifies that the requirements of regulation 7 are not met and the firm appears unable or unwilling to remedy the situation, ACCA will refer the case to the Committee.

Audit independence and influence by others

- 3.1.6 Firms with an auditing certificate must, under regulation 5(1)(g) of the Audit Regulations for both the UK and Ireland, have arrangements to prevent individuals who do not hold an audit qualification and persons who are not members of the firm from being able to exert any influence over the way in which an audit is conducted in circumstances in which that influence would be likely to affect the independence or integrity of the audit. This influence may occur even where the firm meets the requirements of regulation 7. For example, an audit qualified person (principal or employee), in a firm which is not eligible for audit registration, sets up another firm which they legally control in accordance with regulation 7. This firm obtains an auditing certificate in order to accept appointment as auditor to any clients which the ineligible firm has which require an audit. Although the new firm is legally separate from the ineligible firm, it is questionable whether it is effectively separate. If ACCA has concerns that the arrangements do not appear to be adequate to prevent influence, it will refer the matter to the Committee.
- 3.1.7 Auditor independence is the foundation upon which the integrity of the audit is built. In addition, independence is as much a matter of appearance as it is a matter of the auditor's mind. On monitoring reviews firms are sometimes found to be in apparent breach of the requirement for an auditor to be seen to be independent of an audit client or of a third party. The requirements on independence are contained in the Ethical Standard issued by the Financial Reporting Council (FRC) in the UK and by the Irish Auditing & Accounting Supervisory Authority (IAASA) in Ireland, as well as in ACCA's Code of Ethics and Conduct (CEC). The Ethical Standard is in some respects more prescriptive than the CEC.
- 3.1.8 Occasionally, concerns are raised where an audit firm obtains a significant proportion of its fee income from a single source. The Ethical Standard states that, where it is expected that the total fees for both audit and non-audit services receivable from a non-listed audited entity and its subsidiaries audited by the audit firm will regularly exceed 15% of the annual fee income of the audit firm...the firm shall not act as the auditor of that entity and shall either resign as auditor or not stand for reappointment, as appropriate.
- 3.1.9 However, the situation is less clear-cut where a significant proportion of total fee income is not derived from a single client and its subsidiaries, but from several clients with a common connection. For example, sometimes an audit firm obtains a number of audit clients by referral from another accountancy firm which is itself not eligible for an auditing certificate. Although Sections 410.3 to R410.6 of the CEC do not prohibit such an arrangement, in ACCA's view a self-interest threat arises where 15% or more of a firm's total income is derived from a single source. The presumption is that

the ineligible firm will be able to influence its clients, for example in their choice of auditor and on whether to retain the services of a particular auditor. It is this latter point which renders the auditor vulnerable to a threat to their objectivity. In ACCA's view, the 15% threshold in the Ethical Standard is an appropriate benchmark to apply in other situations where a number of audit clients are under common control or have a common connection which could result in a significant influence being exerted on the auditor.

- 3.1.10 Paragraph 6 of the Guide to the ACCA CEC contains a note that, in some specialist areas of work such as audit, professional accountants are subject to a variety of statutory and regulatory requirements. Where the CEC imposes a more stringent requirement than statutory and regulatory requirements, or vice versa, the more stringent requirement will apply, unless prohibited by law or regulation. Therefore, an auditor in the UK and Ireland is required to comply with both the Ethical Standard and Section 410 and, in the event there is any apparent conflict between requirements, comply with the requirement that is more stringent.
- 3.1.11 Where the firm agrees to put adequate safeguards in place or, where this is not possible and the firm resigns from the audit appointment and gives assurances acceptable to ACCA that it will prevent such a threat arising in future, the matter will not be referred to the Committee.

Fitness and propriety

- 3.1.12 A firm must be fit and proper to hold an auditing certificate in accordance with regulation 5(c) of the Audit Regulations for both UK and Ireland. All the provisions of GPR 8 which concern members apply to firms, with such amendments as are appropriate to make the criteria applicable. If ACCA has significant concerns about a matter which appears to impact fitness and propriety, it will refer the case to the Committee.

3.2 Eligibility for other certificates and licences

- 3.2.1 ACCA may refer applications for other certificates or licences to the Committee for consideration, for instance:
- where there may be doubts as to the applicant's fitness and propriety to hold a certificate
 - because of the applicant's previous disciplinary history with ACCA or another professional body
 - where an applicant has previously held a certificate or licence from another body which informs ACCA that its monitoring has found that the applicant has not performed the relevant work to a satisfactory standard.

SECTION 4: GUIDANCE FOR THE COMMITTEE

4.1 Eligibility for an auditing certificate

Control by qualified persons (regulation 7 of the Audit Regulations)

- 4.1.1 In the following circumstances a firm does not meet the requirements of regulation 7:
- the partnership agreement does not give the audit qualified partners control in terms of voting rights
 - persons who are not audit qualified control the majority of the shares with voting rights in the company
 - the majority of directors are not audit qualified and there is no agreement which gives the audit qualified directors the majority of voting rights at board meetings
 - a majority of the members of the firm's administrative or management body are not qualified persons, or if the body consists of only two persons and only one of them is qualified person, that person does not have a casting vote (*Ireland only*).
- 4.1.2 In general, it is for the Committee to decide if the firm is eligible for audit registration based on information provided by the firm which will ensure the audit qualified principals have effective control of the firm. However, Authorisation Regulation 5(1)(a)(ii) provides that, where the firm has ceased to be controlled by qualified persons and the period of three months has elapsed from the date it ceased to be so controlled, withdrawal of the audit certificate is **mandatory** and the Committee has no discretion.

Audit independence and influence by others (regulation 5(1)(g))

- 4.1.3 ACCA will set out in the written report to the Committee the factors that give rise to its concerns about the firm's arrangements to comply with regulation 5(1)(g). The Committee considers each case on its individual facts and takes into account the following (this list is not exhaustive):

- the income of the firm, the existence of management charges and the distribution of net profits and whether this provides the audit qualified individual(s) with sufficient income to assert their independence from the ineligible firm
- the clients of the firm and whether it has any clients which are not also clients of the ineligible firm
- the name of the firm and what association, if any, this implies with the ineligible firm
- the firm's office and staffing arrangements and whether these are common with the ineligible firm
- the status of the audit qualified individuals in the ineligible firm, whether employees, sub-contractors or principals
- the professional qualifications, if any, of the other principals in the ineligible firm and whether or not they are required to comply with ethical principles which would prohibit them from attempting to exert influence over the way in which an audit is conducted
- any safeguards put in place by the audit-registered firm, such as independent external reviews of the audit appointment and the arrangements for the direction, supervision, conduct and review of the audit work.

4.1.4 In cases concerning auditor independence, the Committee will be required to consider the matter where either the firm does not agree that there is a threat to its objectivity or fails to reduce that threat to an acceptable level. The Committee will decide the case on the individual facts, having regard to the relevant requirements of FRC's and/or IAASA's Ethical Standard and ACCA's CEC. Some situations are specifically prohibited by company law. It is usually possible for a solution to be found in which case an order with conditions to ensure the firm takes the necessary action is appropriate. Nevertheless, where the Committee finds that there is a continuing breach of the audit independence requirements, which the firm either will not or cannot remedy, the normal course is for the Committee to withdraw the firm's auditing certificate.

Fitness and propriety

4.1.5 Under GPR 8 and regulation 8 of the Audit Regulations there are various matters the Committee may consider concerning fitness and propriety and the eligibility of a firm for a certificate. The Committee may also be required to take into account any relevant matters relating to any individual associated with, or employed by, the firm.

4.2 Eligibility for other certificates and licences

4.2.1 The Committee considers whether to grant the application and, if so, whether to place any conditions on the certificate. The Committee decides each case based on the individual facts and will take into account the approach taken for individuals and firms which have held certificates continuously from ACCA.

SECTION 5: DESCRIPTION OF THE AVAILABLE ORDERS AND APPLICATION GUIDELINES

5.1 Introduction

5.1.1 **Before reaching a decision, the Committee will consider whether the order, including any conditions, is sufficient to protect the public, maintain public confidence in the profession and maintain proper standards of conduct while ensuring proportionality, in accordance with the principles outlined in Section 2 of this Guidance.** As part of this the Committee will need to consider:

- the firm's or individual's review history and the effectiveness of any previous order;
- the explanations provided for past failures to comply with the requirements;
- the actions already taken by the individual or firm to render them or it eligible for the relevant certificate; and
- the likelihood that the firm's or individual's remedy will be effective and sustained in the longer term.

5.1.2 The Committee may depart from ACCA's recommendation and the guideline orders and conditions; however, the Committee should have regard to the guidance in this document and must ensure that the written reasons for decision clearly explain the exceptional circumstances which resulted in any such departure.

5.2 Available orders

No order

See [Order A1](#).

5.2.1 In all cases the Committee may decide not to make an order, except where withdrawal is mandatory (see 4.1.2).

5.2.2 Relevant factors to take into consideration (this list is not exhaustive):

- the firm or individual has remedied the breach of the eligibility requirements and has provided evidence to support this to the satisfaction of the Committee, provided that the breach had not happened before, was inadvertent and it is reasonable to believe that it will not recur
- there is no significant on-going risk to the public
- there would be no purpose served by placing conditions on the firm's or individual's certificate or licence.

Order placing conditions on the firm's or individual's certificates

See [Order A2](#).

5.2.3 An order placing conditions on a firm's or individual's certificate is effectively the alternative to withdrawal where the firm or individual currently appears to be ineligible. The imposition of conditions allows the firm or individual to remedy the situation while at the same time protecting clients and the public.

5.2.4 Relevant factors to take into consideration (this list is not exhaustive):

- the firm or individual does not currently appear to be eligible for a certificate
- it appears that the situation is remediable within a reasonable time and in the meantime adequate safeguards can be put in place to protect the public
- the firm or individual has made proposals which it appears will remedy the issue but which have not yet been implemented
- it does not appear that the issue will recur or, if it may, the firm or individual has put procedures in place which will ensure that it is appropriately dealt with.

5.2.5 In addition to clearly addressing the causes of the ineligibility and adequately protecting the public, any conditions imposed by the Committee must have a reasonable prospect of being effectively met by the certificate holder. The order usually includes:

- for a firm which does not meet the eligibility requirements for an auditing certificate, allowing the firm to retain its certificate subject to the firm taking certain action within a set timescale failing which, at the Committee's discretion, the certificate should either be suspended or withdrawn or the matter should be referred back to the Committee
- for a firm or individual, placing on-going conditions on the certificate of a type and for as long as the Committee considers appropriate
- an early follow up review by ACCA to ensure that the firm or individual is effectively operating any procedures it or they proposed putting in place or has kept to the conditions imposed; the firm or individual is usually ordered to contribute to the cost of the ordered early review so that this cost does not fall on firms or individuals which have reviews only on the routine cycle.

Order to withdraw the firm's or individual's certificate or licence

See [Order A3](#).

5.2.6 Withdrawal of a certificate or licence is appropriate where a firm or individual is unable to satisfy the Committee that they will be able to meet the eligibility requirements within a reasonable time. Where the Committee does withdraw a certificate on eligibility grounds it may or may not be appropriate to place conditions on any re-application for the certificate.

5.2.7 Withdrawal of a certificate or licence prevents the holder only from conducting the work to which it relates. The individual will normally retain a practising certificate allowing them to conduct all other areas of public practice work, including accountancy and tax.

- 5.2.8 Relevant factors, any or a combination of which indicate that withdrawal of a certificate is appropriate (this list is not exhaustive):
- the firm or individual has made no or wholly inadequate proposals for rectifying the situation the situation has occurred before and the firm or individual has failed to carry out the proposals it made and/or has failed to ensure the situation did not occur again or failed again to deal with the matter appropriately.

Order to suspend the firm's or individual's certificate or licence

- 5.2.9 The Committee has the power to suspend a certificate, provided the suspension is for a specified period or until the occurrence of a specified event or until specified conditions are complied with. The power has limited application in cases where neither withdrawal nor the imposition of conditions would serve the intended purpose. Because of the provision that while the certificate is suspended it shall be deemed not to be held, in audit cases suspension of the relevant certificate means that not only is the individual or firm not entitled to issue any audit reports, but they are also not eligible to accept appointment as auditor. In effect, therefore, in the event that the Committee suspends the audit qualification and/or firm's auditing certificate, the firm has to resign all audit engagements at the point the order becomes effective.
- 5.2.10 In view of the consequences, the Committee will therefore need to consider carefully whether suspension of an audit certificate is the most appropriate order to achieve the desired purpose and ensure that it aligns with the period, future event or conditions which accompany the suspension.

Applications for certificates or licences

- 5.2.11 The Committee considers applications on the same basis as cases where a firm's or individual's eligibility for an existing certificate is in question. The Committee either grants or refuses the application. If it grants the application, then it can impose whatever conditions it believes appropriate.

5.3 Guideline orders for the Committee

- 5.3.1 The guideline orders below reflect the preceding guidance. Each case will be judged on its own facts and the actual wording of the order may vary according to the circumstances.

Order A1: no regulatory action

The Committee decided to make no order.

Order A2: firm permitted to retain an auditing certificate subject to it taking appropriate remedial action by a specified date

The Committee ordered that M XX provide to ACCA, within 60 days of today's hearing, proof of their control of XX Limited. They must provide evidence that they have a majority of the voting rights and, as the qualified person on the board, the casting vote.

In the event that M XX does not provide the necessary evidence that they are in control of XX Limited by the specified date, then the firm's auditing certificate is to be withdrawn.

Order A3: withdrawal of firm's auditing certificate

The Committee found that the firm did not satisfy the eligibility requirements contained in regulation 5 (insert as appropriate) of the United Kingdom Audit Regulations 2016/Republic of Ireland Audit Regulations 2017(delete as appropriate) and made an order pursuant to Authorisation Regulation 5(1)(a) that the firm's auditing certificate be withdrawn.

The Committee further ordered that any future re-application for audit registration by M XX, or by a firm in which they are a principal, must be referred to the Admissions and Licensing Committee.

Part B: Unsatisfactory outcomes to monitoring reviews

SECTION 6: THE APPROACH ADOPTED BY ACCA

6.1 Introduction

Objectives of monitoring

- 6.1.1 As set out in PS2.1, ACCA is required to adopt a risk-based approach to audit monitoring. The focus of any monitoring review is on ensuring that the certificate holder remains eligible to undertake the work to which the certificate relates, including an assessment of the standard of the work through an inspection of a sample of completed files. All certificate holders present a degree of future-licensing risk and a careful yet robust assessment of this risk is paramount in order to protect the public and maintain public confidence in the profession. The ability and commitment to take swift, effective and proportionate regulatory action is an important component of ACCA's approach to improving standards of audit quality.
- 6.1.2 The achievement of effective outcomes is dependent on lead regulators, ACCA staff, the Regulatory Board and the regulatory and disciplinary Committees remaining aligned and focused on working in the public interest.
- 6.1.3 PS3 identifies the presumption of competence as an important principle in assessing future licensing risk. Where concerns exist about an individual's competence to conduct the work, it would be contrary to the public interest to permit them to continue undertaking that work while improving their competence to the required level. Similarly, it would be inappropriate to permit an individual to retain a certificate if it was apparent that they could not conduct the work to a sustained satisfactory standard without being subject to continuous supervision.

Report of findings, follow-up action and risk assessment

- 6.1.4 At the end of each review, ACCA's compliance officer holds a closing meeting with the audit principals to discuss all the deficiencies found in the files inspected. Both parties are able to refer to the files so that any disagreements over the adequacy of the audit evidence may be resolved. The firm is advised that it will be required to provide an action plan (underpinned by a root cause analysis) which sets out in detail how the firm will ensure that it remedies the deficiencies and prevents a recurrence in future. The written report that is prepared subsequently also identifies the deficiencies found and specifies a time limit for the firm to provide its action plan.
- 6.1.5 PS4 and PS8 emphasise the importance of the firm's action plan in assessing regulatory risk. This document represents the certificate holders' opportunity to demonstrate insight into the existence and causes of the deficiencies, and to outline the action designed to prevent a recurrence of those deficiencies in future. It is important that certificate holders take the development of their action plan seriously as they will be given limited opportunities to demonstrate their ability and willingness to make the necessary improvements through submission of a plan which ACCA regards as satisfactory. Accordingly, any failure to effectively implement the actions set out in a previous plan is a major component in the assessment of regulatory risk.
- 6.1.6 ACCA does not require the firm to submit an action plan in cases which will be referred to the Committee to consider certificate removal, as in the majority of such cases the firm has had an opportunity to make the necessary improvements under the terms of a previous action plan and has failed to do so.
- 6.1.7 ACCA assesses risk and the timing of the next monitoring review at the conclusion of each review. The action plan is central to this assessment, but ACCA takes into account a variety of other factors. As explained at PS5, ACCA may at any time amend the risk assessment, and consequently accelerate or defer the next review. The Assessor or Committee cannot bind ACCA in this respect, and any references to the timing of the next review in an order or decision are intended to secure the certificate holder's compliance with the conditions imposed.

6.2 First review

- 6.2.1 PS7 sets out the approach taken by ACCA following a firm's first audit monitoring review. Broadly, the approach depends on the mix of satisfactory and unsatisfactory files in the sample inspected, and the extent of the serious deficiencies found.

- 6.2.2 ACCA selects the sample of files for inspection based on information provided by the firm about its client portfolio and its audit procedures. ACCA aims to identify all of the factors that may impact the quality and consistency of the audit work and select a sample of files that represent the risks identified. As a result, the findings will be representative of the firm's audit work overall and that of the individual audit principals responsible for that work.
- 6.2.3 Because of the presumption of competence, it is not appropriate that an individual or firm will always be permitted one opportunity to improve the standard of their work before regulatory action is considered, including potential withdrawal of the audit certificate. If the certificate holder is unable to demonstrate that they are capable of a satisfactory standard of work on at least one of the files inspected, this raises concerns about competency and the ability to improve the work to a satisfactory standard. In these circumstances, notwithstanding that it is the first review ACCA will refer the matter either to the Committee or the Assessor depending on the circumstances.
- 6.2.4 In some cases, ACCA identifies an engagement where the individual or firm has made little or no attempt to comply with auditing standards. This is regarded as a particularly serious matter as it only arises as a result of incompetence, recklessness or a lack of integrity. Such an occurrence is aggravated by the existence of other files where it is evident that the individual was clearly aware of the requirements and produced work of a better standard (whether or not the file itself was assessed as satisfactory or unsatisfactory) as this indicates that the non-compliance was deliberate. ACCA's approach if any such files are identified is to recommend withdrawal of the audit certificates, irrespective of the review history.

6.3 Second and subsequent reviews

- 6.3.1 PS9 sets out the approach to second and subsequent reviews and identifies two scenarios in which the firm fails to achieve a satisfactory standard of audit work.

Previously satisfactory review history

- 6.3.2 A firm with a previously satisfactory monitoring history is expected to maintain that standard and will have provided at least one previous action plan. PS9.2 sets out the policy if a firm fails to maintain a satisfactory standard. ACCA's decision on what approach to take will be based on its assessment of the firm's action plan, the reasons stated for failure to implement any previous action plan, and the likelihood that the firm will make the necessary improvements in light of its attitude to the review findings. If the deterioration is marginal and the risk assessment indicates that it is appropriate, ACCA may decide to accelerate the next review but not refer the case to the Assessor or Committee. If the deterioration is significant and/or there are other risk factors present, notwithstanding that this is the first review with an unsatisfactory outcome, ACCA is likely to make a referral either to the Assessor or Committee depending on its recommended course of action.

Previous unsatisfactory review

- 6.3.3 As explained in PS9.4 to 9.6, where a firm has an unsatisfactory outcome to two successive reviews, or fluctuates between a satisfactory and unsatisfactory standard over its monitoring history, ACCA's Compliance department assesses the licensing risk taking into account the following (this list is not exhaustive):
- the firm's or individual's review history, with particular focus on the number and age of past unsatisfactory reviews
 - the nature of the significant deficiencies and how widespread they are
 - the effectiveness of any previous action plan and an assessment of whether a (further) action plan is likely to be effective in future
 - whether the individual's or firm's more recent work is of a better standard
 - whether the significant deficiencies arise on the work of one individual
 - the firm's or individual's insight into the review findings.
- 6.3.4 However, unless there are exceptional reasons ACCA will refer the case to the Committee with the recommendation that it withdraws the audit certificates.

SECTION 7: GUIDANCE FOR THE COMMITTEE AND ASSESSOR

7.1 Introduction

7.1.1 In all cases where it makes a referral, ACCA indicates in its report how significant and widespread are the deficiencies in the firm's or individual's work and, where applicable, whether the firm or individual has improved or deteriorated since any previous review (including an indication of the effectiveness of any previous action plan). ACCA also makes a recommendation based on the circumstances of the case and it is then for the Assessor or Committee to consider what action to take, within the terms of the Regulatory Board's Policy Statement and this supporting Guidance.

7.2 First referral of the findings of a monitoring review

- 7.2.1 As described in 6.2, ACCA will normally refer the findings of a first review to the Assessor or Committee where the work is consistently poor or the firm/individual has made little or no attempt to comply with the relevant requirements.
- 7.2.2 In other cases which the Assessor or Committee considers, the firm or individual will have had one or more previous monitoring review, been notified both orally and in writing of the deficiencies in the work and been given the opportunity to improve the standard of the work by implementing an appropriate action plan. In spite of this, ACCA has found that the firm or individual has not achieved a satisfactory standard of work.
- 7.2.3 The action recommended by ACCA, and that ultimately taken by the Assessor or Committee, is based on an assessment of future licensing risk, taking into account the previous monitoring history, the effectiveness of any previous action plan (reflected by the extent of the serious deficiencies found at the most recent review and the extent to which previous deficiencies have recurred), the individual's or firm's insight into the findings of the current review and the adequacy of any action plan produced as a result.
- 7.2.4 The Assessor or Committee may conclude that the imposition of appropriate conditions appears sufficient to manage the regulatory risk whilst allowing the firm or individual to retain the certificate. This usually involves making a decision on the lines of [Decision B2](#) (Assessor) and [Order B6](#) (Committee).
- 7.2.5 The Assessor or Committee may vary the terms of [Decision B2](#) and [Order B6](#) according to the facts of each case but should refer to PS10 to ensure that any conditions meet the required criteria. In particular, the Assessor or Committee should avoid imposing external 'hot' reviews of the audit files unless there is a clear and exceptional purpose to protect the public on a specific audit. See 8.2.6 and 8.2.8 below for further guidance.
- 7.2.6 However, in other cases the assessment of the risk factors identified in 7.2.3 will lead ACCA and the Assessor or Committee to the conclusion that there is significant doubt about the certificate holder's willingness and ability to achieve and sustain a satisfactory standard of audit work in future. In such cases, the imposition of conditions will not adequately protect the public and the minimum action necessary is withdrawal of the audit certificate (see [Order B7](#)). PS11.1 indicates that it is not necessary for the individual or firm to have been subject to previous regulatory action for certificate withdrawal to be appropriate. As identified in the PS, ACCA may recommend withdrawal of the audit certificate if:
- at any review, on any file inspected there is little or no evidence that the firm has attempted to comply with auditing standards (PS7.1(i))
 - all of the files inspected at a first review were of an unsatisfactory standard (PS7.1(ii))
 - at any review, there was one or more unsatisfactory audit file and the firm subsequently fails to submit a suitable action plan (PS4.4(i))
 - the firm fails to maintain a satisfactory standard on all files inspected despite a previously satisfactory monitoring history (PS9.2(iii))
 - there are two consecutive unsatisfactory monitoring review outcomes (PS9.4)
 - the individual or firm fluctuates between a satisfactory and unsatisfactory standard over the course of their monitoring history (PS9.5)
- 7.2.7 In some cases, ACCA may refer a case to the Assessor with the recommendation that they impose conditions on the certificate, but the Assessor disagrees with the recommendation and refers the matter to the Committee because they consider that withdrawal of the certificates should be considered (see [Decision B3](#)).

7.3 Second referral of the findings of a monitoring review

- 7.3.1 A second referral will almost certainly be to the Committee rather than the Assessor as ACCA will be recommending withdrawal of the certificates. A second referral may result from a certificate holder's failure to improve sufficiently at a review required by the Assessor or the Committee or from the standard of work deteriorating at a subsequent review after the holder was previously released from conditions.
- 7.3.2 As indicated in PS9.4, in the former scenario the certificate holder has been given the opportunity to improve their work while under the terms of regulatory conditions and a warning from the Assessor or Committee. In the latter scenario, PS9.5 indicates that serious concerns will exist about the certificate holder's willingness and ability to maintain a consistently satisfactory standard of work. In both scenarios, PS9.6 indicates that in the absence of clear exceptional circumstances (see 7.5 below), the Committee will normally order withdrawal of the audit certificates and impose conditions on any future reapplication (Order B7).

7.4 Third referral of the findings of a monitoring review

- 7.4.1 Such referrals will be rare because in most cases the firm or individual will have had to convince the Committee that there were exceptional reasons not to withdraw the certificate at the second referral (see below). If, by this stage, the firm or individual has not shown the ability to achieve and/or maintain a consistent satisfactory standard of work, the Committee should withdraw the audit certificates (Order B7).

7.5 Exceptional reasons for not withdrawing a certificate

- 7.5.1 In exceptional cases, despite ACCA's recommendation and the guidance contained in this document, the Committee may decide that the firm or individual should be given a further chance to achieve a satisfactory standard of work and imposes conditions on the certificate instead (Order B6). Before taking such an exceptional course of action, however, the Committee will need to carefully assess the future licensing risk, taking account of the following:
- the protection of the public
 - the reputation of a profession as a whole is more important than the fortunes of an individual member
 - the number of previous opportunities the certificate holder has been given (whether or not captured in the form of an action plan) to show that they are willing and able to achieve and sustain a satisfactory standard of work
 - the high probability (given the regulatory history) that conditions imposed for a second time are unlikely to ensure that the certificate holder will sustain any improvements.
- 7.5.2 The following should not be considered as exceptional reasons for allowing a firm or individual to retain a certificate:
- (a) the firm or individual had not taken appropriate action following the previous unsatisfactory review outcomes but now states a commitment to making the necessary improvements.
- (b) the firm or individual wishes the Committee to take into account work completed since the most recent monitoring review and reported on by a training company or other third party, which appears to show that the standard of the firm's or individual's work has improved; this should not be accepted as exceptional because:
- ACCA should not rely on the results of external reviews performed by a third party training company as a basis for future licensing decisions
 - although usually reliable, the training company is not impartial and is being paid by the firm for the report
 - the post-review audit work was not the firm's work at the time of the review and, being done in the knowledge that it may affect its continuing registration, it is not representative of its "normal" work
 - the Admissions and Licensing Committee (and the Appeal Committee) has a responsibility to protect the public and so should not accept the high future licensing risk that recent work reviewed by a non-independent training company gives a better indication of future performance than the past few monitoring reviews conducted by an ACCA compliance officer.

7.5.3 Where the Committee decides, based on all the evidence before it, not to withdraw the certificate but instead decides to make no order or impose conditions, subsequent to the hearing ACCA will require the firm to provide a formal action plan which ACCA will then assess. It is expected that this action plan will set out how the individual or firm will ensure that they or it will achieve a satisfactory standard of work in future, and reflect any representations made at or before the hearing and which were relied upon by the Committee in reaching its decision. If the plan is not regarded as adequate, ACCA will consider what further action to take, which may include referring the matter back to the Committee. In any event, ACCA is likely to schedule an accelerated monitoring review approximately 12 months after the date of the previous review in order to assess the extent of improvements in the standard of work.

7.6 Re-application for a certificate following its withdrawal by the Committee or where the Committee or Assessor has placed conditions on a future re-application

7.6.1 Where an individual or firm re-applies for a certificate following a decision of the Committee or Assessor that any future application should be considered by the Committee, the applicant first has to meet any condition(s) placed on the re-application such as those indicated in [Decision B4](#) or [Orders B7](#) and [B8](#).

7.6.2 The Committee considers re-applications in the same way as other applications and, in addition, takes into account the circumstances in which the applicant previously ceased to hold the certificate. For instance, the Committee will give careful consideration to the applicant's insight into past unsatisfactory monitoring reviews and their proposals for ensuring they carry out the work to a consistent satisfactory standard in future. Where the Committee decides to grant the application, it considers whether to place any conditions on the certificate, bearing in mind that these must be sufficient to protect the public given the high regulatory risk based on the monitoring history. The Committee will usually consider it appropriate to order an early monitoring review at the applicant's cost.

SECTION 8: DESCRIPTION OF THE AVAILABLE DECISIONS/ORDERS AND APPLICATION GUIDELINES

8.1 Introduction

8.1.1 In this section, references to an 'individual' include ACCA members and others who are qualified to carry out audit or other work under a certificate issued by ACCA. Although ACCA's reports on audit work are usually concerned with the failings in a firm's work and the decisions made by the Assessor or the Committee may be imposed on the firm, they are usually imposed only on the relevant audit principals of the firm, including both ACCA members and members of other professional bodies. The order then follows the individual if they move to another firm which holds an ACCA auditing certificate.

8.1.2 **Before reaching a decision, the Assessor or Committee will consider whether it, including any conditions, is sufficient to protect the public, maintain public confidence in the profession and maintain proper standards of conduct while ensuring proportionality, in accordance with the principles outlined in Section 2 of this Guidance.** As part of this the Assessor or Committee will need to consider:

- whether there is any evidence that the certificate holder possesses the necessary knowledge, experience and skills to undertake to the required standard the work to which the certificate relates;
- the firm's or individual's insight into, and explanations for, the failures;
- the firm's or individual's intentions for the future;
- the likelihood, taking into account the firm's or individual's review history and the extent to which past identified improvements (if any) have been successfully implemented, that they will achieve a sustained satisfactory standard of work in future.

8.1.3 **The Assessor and Committee may depart from ACCA's recommendation and the guideline decisions/orders and conditions; however, the Assessor or Committee should have regard to the guidance in this document and must ensure that the written reasons for decision clearly explain the exceptional circumstances which resulted in any such departure.**

8.2 Available decisions/orders

No action

See [Decision B1](#) and [Order B5](#).

- 8.2.1 The Assessor or Committee may decide to take no action. However, bearing in mind ACCA's decision-making process before making the referral, and the overriding need to protect the public and maintain confidence in the profession, this option is usually only appropriate in clearly defined circumstances:
- where the firm or individual has provided evidence which successfully rebuts the significant findings of the monitoring review to the extent that the overall outcome is no longer assessed as unsatisfactory; or
 - the significant failings occurred for exceptional reasons, the firm or individual has acknowledged the weaknesses and had, prior to the monitoring review or shortly thereafter, taken clearly demonstrable action which carries a high probability of preventing a recurrence.

For example, the significant deficiencies may have been limited to the work of one individual who has subsequently left the firm or been reassigned to other duties. Nevertheless, the Assessor or Committee will need to consider whether it is necessary to place conditions on the relevant individual's certificate.

Decision placing conditions on the firm's or individuals' certificates

See [Decision B2](#) and [Order B6](#).

- 8.2.2 A decision placing conditions on a certificate or licence is effectively the alternative to withdrawal where the work is unsatisfactory, but the Assessor or Committee is able to identify conditions which will address the causes of the failings, and which will adequately protect the public. Where there are concerns about the insight of the certificate holder, or their ability and willingness to make the necessary improvements, the Assessor or Committee should be mindful of the risk that the conditions will not be effective.
- 8.2.3 As set out in PS9.4 and 9.5, where a firm has an unsatisfactory outcome to two successive monitoring reviews, or it fluctuates between an overall satisfactory and unsatisfactory standard, there are very few circumstances in which it would be appropriate for the firm and its partners to avoid withdrawal of their audit certificates. As a minimum, the firm has been allowed an opportunity to improve by implementing its own action plan but has failed to do so.
- 8.2.4 In other cases, the individual or firm is subject to existing conditions, or has been subject to conditions in the past but has been released after achieving a satisfactory standard of work. It would not generally be appropriate for the Assessor or Committee to impose similar conditions for a second time, because the previous conditions were not effective in bringing about a significant or sustained improvement in the standard of the work, and therefore the likelihood of similar conditions being effective in the future is significantly impaired.
- 8.2.5 Relevant factors, any or a combination of which indicate that the imposition of conditions may be sufficient to protect the public (this list is not exhaustive):
- the outcome of the most recent review was unsatisfactory overall, but the firm or individual has demonstrated the ability to achieve a satisfactory standard of work on at least one file
 - the existence and number of any monitoring reviews with a satisfactory outcome in the firm's or individual's review history
 - the quality of the action plan, if any, produced in response to the findings of the most recent monitoring review
 - the effectiveness of the action plan(s), if any, produced by the firm following previous monitoring reviews, and the plausibility of the firm's explanation as to why the plan(s) appear not to have been effective in improving the standard of its work
 - there are no significant concerns about the insight of the individual into the failings in the work and there is a clear acceptance of, and commitment to, the need to make and sustain improvements
 - appropriate conditions can be identified which will protect the public during the period before the next monitoring review

8.2.6 In addition to clearly addressing the causes of the failings and adequately protecting the public, any conditions imposed by the Assessor or Committee must have a reasonable prospect of being effectively met by the certificate holder. The conditions usually imposed include:

- in all cases an early follow up review by ACCA compared with the routine audit monitoring cycle of six years
- the firm or individual is required to pay a contribution towards the cost of the ordered early review so that this cost does not fall on firms or individuals which have satisfactory outcomes to their reviews
- in all cases warning the firm or individual that failure to improve the conduct of the relevant work will jeopardise the holding of the relevant certificate.

In order to protect the public, the Assessor or Committee may also consider it appropriate to impose other conditions, such as placing restrictions on the number or type of audit appointments the individual or firm is permitted to accept or (with due regard to the presumption of competence explained in PS3) mandating achievement of continuing professional development on a particular subject by a specified date.

Timing of accelerated reviews

8.2.7 In the event that the Assessor or Committee requires an accelerated monitoring review as part of the conditions imposed, that review should generally take place between 12 and 18 months after the previous review which resulted in the referral. Because of the presumption of competence, extensive training will not be required, and it is expected that the individual or firm will implement the remedial action set out in their action plan immediately and ensure that all subsequent audits are undertaken to a satisfactory standard. The exact timing of the review will be determined by ACCA depending on when the firm completes any audit assignments.

'Hot' file reviews as a component of conditions

8.2.8 As set out in PS10.2 and 10.3, the Assessor and Committee should avoid imposing 'hot' file reviews (whereby an independent third party provides a report on the conduct of the audit before the audit report can be signed) unless there is a very clear objective and to protect the public on a particular audit, e.g. the work is substantially complete and the individual or firm does not appear to be in a position to complete the work to the required standard within the necessary timescale. Emphasis should instead be placed on the importance of the firm making the necessary improvements identified in its action plan without undue reliance on third parties.

Order to withdraw the firm's or individual's certificate or licence

See [Decision B3](#) and [Order B7](#)

8.2.9 Withdrawal of a certificate or licence is appropriate where a firm or individual is unable to satisfy the Committee of their insight, willingness and capability to rapidly improve the work to, and sustain it at, a consistently satisfactory standard. Where the Committee does withdraw a certificate or licence it is usually appropriate to place conditions on any re-application for the certificate, for example, the audit principals are expected to show that they have improved their knowledge of auditing before reapplying by attending an appropriate course and passing an examination on auditing.

8.2.10 The withdrawal of a certificate or licence prevents the holder only from conducting the relevant work. The individual will retain a practising certificate allowing them to conduct all other areas of public practice work, including accountancy and tax. It is unlikely that it would be appropriate to withdraw a member's practising certificate solely as a result of poor audit work.

8.2.11 Relevant factors, any or a combination of which indicate that withdrawal of a certificate is appropriate (this list is not exhaustive):

- the firm's or individual's work is generally of a poor standard
- there is no evidence, in the form of at least one satisfactory audit file at the most recent review, of the firm's or individual's ability to comply with auditing standards
- although at least one file was assessed as satisfactory, the firm or individual has made little or limited improvement in the standard of work in spite of advice received at, or an action plan produced following, a previous monitoring review
- there is inconsistency in the firm's insight into the deficiencies and the need to improve, expressed either during the monitoring review, in subsequent correspondence with ACCA or in its action plan

- it is not a pre-requisite for withdrawal that the firm or individual has previously been subject to conditions imposed as a result of unsatisfactory work; however, if such conditions have previously applied and the holder has either not improved sufficiently while subject to those conditions, or has not sustained the improvement following release, the risk of not sustaining a satisfactory standard in future is significantly increased the individual or firm has taken or proposed action designed to improve the work and maintain it at a satisfactory standard only after being advised that the certificate is at risk of being withdrawn following the unsatisfactory outcome to the most recent monitoring review

Order to suspend the firm's or individual's certificate or licence

- 8.2.12 The Committee has the power to suspend a certificate, provided the suspension is for a specified period or until the occurrence of a specified event or until specified conditions are complied with. The power has limited application in cases where neither withdrawal nor the imposition of conditions would serve the intended purpose. Because of the provision that while the certificate is suspended it shall be deemed not to be held, in audit cases suspension of the relevant certificate means that not only is the individual or firm not entitled to issue any audit reports, but they are also not eligible to accept appointment as auditor. In effect, therefore, in the event that the Committee suspends the audit qualification and/or firm's auditing certificate, the firm has to resign all audit engagements at the point the order becomes effective.
- 8.2.13 In view of the consequences, the Committee will therefore need to consider carefully whether suspension of an audit certificate is the most appropriate order to achieve the desired purpose and ensure that it aligns with the period, future event or conditions which accompany the suspension.

Conditions on future re-application following voluntary surrender of certificate

See [Decision B4](#) and [Order B8](#)

- 8.2.14 Sometimes a holder relinquishes a certificate before the Assessor or the Committee can make a decision. The Assessor or Committee always takes into account the particular facts of each case in deciding what action to take:
- if ACCA would have recommended withdrawal of the certificate had the holder not relinquished it, the Committee is expected to impose the same condition on re-application as it would if it had withdrawn the certificate i.e. passing an examination or another appropriate test of competence, accompanied by a suitable action plan explaining how the applicant intends to prevent a recurrence of the previous deficiencies
 - if it appears that the imposition of conditions would otherwise have been appropriate if the firm was continuing to carry out the work, the Assessor or Committee usually decides that any future re-application must be referred to the Committee, but the pre-conditions are likely to be limited to the production of a suitable action plan setting out how the applicant intends to prevent a recurrence of the previous deficiencies, and would not normally extend to passing an examination or other test of competence
- 8.2.15 Nevertheless, the Assessor or Committee should impose whatever conditions on any future reapplication that they or it considers necessary to protect the public.

8.3 Guideline decisions and orders

- 8.3.1 The guideline decisions and orders below reflect the preceding guidance and relate to the most common situations where the Assessor or Committee is considering the action necessary following the unsatisfactory outcome to a monitoring review. Each case will be judged on its own facts and the actual wording of the decision/order may vary according to the circumstances.

Index to Guideline decisions and orders

OUTCOME	AUTHORITY	
	Regulatory Assessor	Admissions and Licensing Committee
No regulatory action	Decision B1	Order B5
Conditions on certificate	Decision B2	Order B6
Withdrawal of certificate	Decision B3	Order B7
Conditions on future reapplication	Decision B4	Order B8

8.3.2 Guideline decisions for the Regulatory Assessor

Decision B1: no regulatory action

On the basis of the above I have decided pursuant to Authorisation Regulation 7(3)(a) that no regulatory action is necessary in this case.

Decision B2: conditions in audit cases where firm retains an auditing certificate

On the basis of the above I have decided pursuant to Authorisation Regulations 7(2)(f) and 7(3)(b) that M XX and M XX should be required to:

- (i) be subject to an accelerated monitoring review before (usually 1 year to 18 months after the previous review) at a cost to the firm (plus VAT at the prevailing rate) of £1,500 and £650 for each additional audit qualified principal; and
- (ii) note that failure to make the necessary improvements in the level of compliance with auditing standards by that time will jeopardise their and their firm's continuing audit registration.

Decision B3: where it is appropriate for withdrawal of auditing certificate or audit qualification to be considered

On the basis of the above I have decided pursuant to Authorisation Regulation 7(3)(c) to refer this case to the Admissions and Licensing Committee so that it can consider whether to exercise its powers under Authorisation Regulation 5(2) to withdraw M XX's and M XX's and their firm's audit certificates.

Decision B4: where the individual/firm has already relinquished the audit certificates

I note that M XX has relinquished/not renewed their practising certificate with audit qualification and their firm's auditing certificate.

On the basis of the above I have decided pursuant to Authorisation Regulations 7(2)(f), 7(3)(b) and 7(4) that any future re-application for audit registration by M XX, or by a firm in which they are a principal, must be referred to the Admissions and Licensing Committee, which will not consider the application until they have provided an action plan, including appropriate audit related CPD, which ACCA regards as satisfactory, setting out how M XX intends to prevent a recurrence of the previous deficiencies and, following the date of this decision, passed the advanced audit and assurance paper of ACCA's professional qualification.

8.3.3 Guideline orders for the Admissions and Licensing Committee

Order B5: no regulatory action

The Committee decided to make no order.

Order B6: conditions in audit cases where firm retains an auditing certificate

The Committee made an order pursuant to Authorisation Regulations 6(16)(a)(iv) and 5(2)(f) that M XX and M XX be required to:

- (i) be subject to an accelerated monitoring review before (usually 1 year to 18 months after the previous review) at a cost to the firm (plus VAT at the prevailing rate) of £1,500 and £650 for each additional audit qualified principal; and
- (ii) note that failure to make the necessary improvements in the level of compliance with auditing standards by that time will jeopardise their and their firm's continuing audit registration.

Order B7: withdrawal of auditing certificates

The Committee made an order pursuant to Authorisation Regulations 6(16)(a)(ii) and 5(2)(f) that:

- (i) M XX's practising certificate with audit qualification and the firm's auditing certificate be withdrawn and they be issued with a practising certificate; and
- (ii) any future re-application for audit registration by M XX, or by a firm in which they are a principal, must be referred to the Admissions and Licensing Committee, which will not consider the application until they have provided an action plan, including appropriate audit related CPD, which ACCA regards as satisfactory, setting out how M XX intends to prevent a recurrence of the previous deficiencies and, following the date of this order, passed the advanced audit and assurance paper of ACCA's professional qualification.

Order B8: where the individual/firm has already relinquished the audit certificates

The Committee noted that M XX had relinquished/not renewed their practising certificate with audit qualification and their firm's auditing certificate.

The Committee made an order pursuant to Authorisation Regulations 5(2)(f) and 6(16)(a)(v) that any future re-application for audit registration by M XX, or by a firm in which they are a principal, must be referred to the Admissions and Licensing Committee, which will not consider the application until they have provided an action plan, including appropriate audit related CPD, which ACCA regards as satisfactory, setting out how M XX intends to prevent a recurrence of the previous deficiencies and, following the date of this order, passed the advanced audit and assurance paper of ACCA's professional qualification.



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