Consideration for private equity investment in audit firms

Over the last few years there has been a marked increase in private equity (PE) investment and involvement in the accountancy sector, and this trend is likely to continue. The involvement of private equity will likely create more complex ownership structures, and firms need to carefully consider the effect on their audit eligibility, independence and audit quality before, during and after any such transactions.

Engaging with ACCA at an early stage

Firms considering becoming involved with a private equity investor – or that have already done so – are advised to contact ACCA at an early stage, so that appropriate advice can be given on any new ownership structure and any audit eligibility matters can be addressed before a transaction completes. This follows the Financial Reporting Council's (FRC) September 2024 letter confirming that any firm considering a change of ownership to introduce external private capital should engage with the FRC, where appropriate, and its Recognised Supervisory Body (RSB) at the earliest opportunity, and in confidence.

Eligibility and control

Private equity involvement may impact a firm's eligibility to hold an auditing certificate. Firms must be able to demonstrate that control, including the majority of voting rights, remains with audit-qualified persons in accordance with the eligibility requirements set out in ACCA's Global Practising Regulations (Annex 1, Appendix 1, Section 5 (UK) or Annex 2 Appendix 1 Section 5 (Ireland)).

- Firms must confirm who will hold voting rights, board seats and constitutional control once the investment is completed, and check this continues to meet the firm's eligibility requirements.
- Firms should note that some governance arrangements set control thresholds above a simple majority, and PE investment can dilute audit-qualified control if this is not carefully structured.
- Where a corporate investor holds an interest, consider whether that entity itself needs to hold audit registration or an appropriate board agreement confirming the audit-qualified principal retains the casting vote.
- Firms must have arrangements to prevent individuals who do not hold an appropriate 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.

Independence considerations

Firms must have a clear understanding of the ownership and other interests held by their investors, to ensure they comply with the independence requirements on audit engagements, as set out in the FRC's Ethical Standard (UK) or IAASA's Ethical Standard for Auditors (Ireland) 2025, and the ACCA Code of Ethics and Conduct. Firms should also consider how these requirements are addressed within their system of quality management under ISQM 1 (see below).

Private equity investors typically have complex ownership and funding sources, and invest in a diverse portfolio of other businesses, so firms must maintain a clear record of these sources of funds and investments to allow the firm to demonstrate its independence.

- Assess whether the PE fund, or any of its portfolio companies or significant affiliates, are or become audit clients of the firm – the FRC's Ethical Standard will generally prohibit this once the fund holds an ownership interest in the firm.
- Consider whether the fund or its employees could be a 'covered person' (as defined in the glossary to the FRC's Ethical Standard (UK) and to IAASA's Ethical Standard for Auditors (Ireland)) in a position to influence the conduct or outcome of an audit, for example through a senior governance role.
- Keep the independence assessment under regular review, as investor and portfolio structures change over time.

Audit quality considerations

Firms looking to become involved with private equity, or that have already done so, must consider the effect on audit quality. The involvement of private equity will likely require additional work on all audit engagements at the acceptance and continuance stage, to ensure ethical considerations are fully documented and addressed.

ISQM 1 requires a firm's judgements about accepting or continuing client relationships and engagements to be appropriate, and for its financial and operational priorities not to lead to inappropriate judgements. Following private equity investment, firms should reassess their acceptance and continuance procedures to ensure that growth or profit targets do not override ethical, independence and competence considerations, and should document that assessment. Firms must ensure that audit quality is not reduced by a drive for efficiency, and that partner or director remuneration remains appropriately linked to audit quality rather than solely to growth or profit.

- Private equity can bring welcome opportunities to invest in infrastructure, technical resource and personnel.
- Firms must also remain alert to the potential threats to audit quality that can accompany PE investment, including an inappropriate focus on growth, profit and fees, and a short-term outlook.

Firmwide procedures and ISQM 1

Where a firm forms part of a wider network because of private equity investment, ACCA must be notified. It must also consider the implications for its System of Quality Management (SoQM) under ISQM 1.

- Firms should note that where they rely on network requirements or services – such as a global audit methodology, training programmes or software – these form part of the firm's SoQM and must be evaluated for appropriateness.
- The individual firm remains ultimately responsible for its own SoQM, and must ensure that network requirements are adapted or supplemented to suit its specific circumstances.
- Under ISQM 1, responsibility for the SoQM rests fully and ultimately with the local firm – and specifically its leadership – regardless of any network involvement.

Help, guidance and notifications

If further input is required, please contact the Authorisations team via your MyACCA portal, or the ACCA Technical Advisory team (UK firms only) via advisory@accaglobal.com

Please email regulationoperations@accaglobal.com if your firm needs to report any ethical breaches, or to notify ACCA of matters relating to eligibility or auditor resignation (see ACCA's guidance on auditor cessation and resignation notifications).