

ACCA audit monitoring reviews – quarterly update – eligibility

Recent findings during audit monitoring reviews have revealed some technical breaches of a firm's eligibility requirements to hold an auditing certificate. As a result, ACCA have updated their response to identifying such breaches.

An extract of the standard is documented below, but the most common breaches are identified with regards to a firm's control by audit qualified persons (5 (1)(b) regulation 7).

Please refer to the [Rulebook](#) for the full definitions of a controlled firm, but in essence, the control and majority of voting rights must be with audit qualified persons.

EXAMPLES OF COMMON BREACHES

- Firm ABC has two members Mr F and Mr G, with Mr F being the audit qualified principal. Firm ABC does not have a written constitution or board minute confirming any casting vote. Therefore, there is no evidence to demonstrate that the audit qualified person has the control (it would seem Mr F and Mr G have equal control). To resolve these issues the Board should pass a motion confirming that the audit qualified person has the casting vote on substantially all matters.
- Firm CWP Limited is an incorporated practice managed by Mr J and Mr K, with Mr J being the audit-qualified principal. However, CWP Limited is 60% controlled by PAF Limited, which does not hold audit registration and is therefore not considered a "qualified person". Additionally, the board of directors of PAF Limited is not controlled by Mr J as there is no board agreement granting him the casting vote on substantially all matters or any rights over the constitution of the firm that would allow him to direct its overall policy or alter its constitution. To resolve these issues, PAF Limited should obtain its own auditing certificate and enter into a board agreement that provides the audit-qualified principal, Mr J with the casting vote on all matters affecting the firm.
- Firm MVS was a five-partner firm. Three of the principals hold the audit qualification and under the partnership agreement, each partner has one vote. Control was with the audit qualified persons as they held the majority of the voting rights, thereby demonstrating control of the firm. As the firm grew three new partners were added to the partnership, of which only one held the audit qualification. The voting has now been diluted so that there is an equal split between audit qualified votes and non-audit qualified votes (four each). The firm can no longer demonstrate that control is with the audit qualified persons. The firm should pass a board minute or amend the partnership agreement to ensure that the audit qualified persons have the majority voting rights.

In each case, the firm may have been granted an audit certificate based on their eligibility at a point in time, but due to subsequent changes, the firm is technically now ineligible to hold one, and therefore ineligible to sign audit opinions.

ADDRESSING CONTROL RELATED BREACHES

To address a control related breach the firm is required to make the necessary internal changes in order to ensure the firm meets the eligibility criteria. The firm must then identify any audit reports that have been signed during the period the firm did not meet the eligibility requirements. Firms must then contact the affected audit clients and notify them of the issue and offer to re-sign the affected financial statements now that they meet the eligibility requirements.

If ACCA identify that a firm is ineligible due to a control related breach, they will confirm that the firm have complied with these requirements. The firm will be required to provide evidence that they have:

- 1 Addressed the matter that has led to the firm being ineligible.
- 2 Identified all audit or assurance clients that have had an audit or assurance report signed whilst they were ineligible.
- 3 Written to all the affected audit clients to notify them of the issue and ask whether they require the audit opinions be re-signed (and the accounts refiled) now that the firm are eligible to do so.
- 4 The firm must provide details of the audit clients and audit reports affected to ACCA within 28 days of them being notified of the eligibility matter by ACCA (which will be done in writing).
- 5 If requested, the firm must be able to provide evidence to ACCA that they have notified all affected clients and asked whether they require the audit reports be signed now the firm are eligible.

Firms that identify breaches themselves are required to report these (and any other ethical breaches) to ACCA at regulationoperations@accaglobal.com

PRIVATE EQUITY INVESTMENT IN ACCOUNTANCY AND AUDIT PRACTICES

Over the last few years there has been an increase in private equity investment and involvement in the accountancy sector. This trend is likely to continue in the future. The involvement of private equity will likely create more complex ownership structures and may impact a firm's eligibility to hold an auditing certificate. Therefore, ACCA advise firms considering becoming involved with such entities to contact ACCA at an early stage so that appropriate advice can be given regarding any new ownership structure to ensure that any audit eligibility matters are addressed.

A second consideration for firms involved with private equity investment is that of independence. Firms must have clear understanding of the ownership and other interests held by their investors to ensure they comply with the independence requirements on audit engagements. Private Equity investors have complex ownership and investment sources, and invest in a diverse portfolio, there must be a clear understanding and record of these sources of funds and investments to allow the firm to demonstrate its independence.

Firms looking to become involved with private equity (or 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 and to ensure the ethical considerations are fully documented and addressed.

Firms must ensure that audit quality is not reduced by a drive for efficiency and partner/director remuneration must remain appropriately linked to audit quality.

Private equity can bring in opportunities to improve infrastructure and invest in audit resources, both technical and personnel. However, firms must also be aware of the potential threats to audit quality, which include a focus on growth and profits, a short-term focus, and an inappropriate focus on fees.

HELP, GUIDANCE AND NOTIFICATIONS

If further advice is required, please contact the authorisation team via your ACCA portal or by contacting the ACCA Technical Advisory team (UK firms only) via advisory@accaglobal.com

Further guidance on how ACCA firms considering merging or acquiring another firm, from both the acquiring and acquired perspective, need to notify ACCA can be found [here](#).

Please email regulationoperations@accaglobal.com if your firm needs to inform ACCA of any auditor resignations statements where your firm leaves office before the expiry of the natural term of office. In addition, this email address should also be used if the firm needs to report any ethical breaches.

Extract of GPR Annex 1 Appendix 1 Section 5

Global Practising Regulations (Annex 1, Appendix 1) Section 5 details the eligibility requirements for a firm to be eligible for an Audit Certificate in the **United Kingdom**.

- (1) A firm shall be eligible for an auditing certificate if:
- each of the individuals responsible for the firm's audit work holds responsible individual status in accordance with regulation 4;
 - it is controlled by qualified persons within the meaning of regulation 7;
 - it is fit and proper within the meaning of regulation 8;
 - it holds the necessary PII in accordance with regulation 10;
 - it has made arrangements for the continuity of its practice in accordance with regulation 12;
 - it has appointed a Compliance Principal;
 - where the firm is a body corporate (excluding a limited liability partnership), the Articles of Association:
 - require its shareholders to notify it of any changes in the number of shares held in the body corporate, whether the shares are held directly or indirectly;
 - enable the board of directors to require shareholders to supply information about their shareholdings in the body corporate over the previous three years;
 - enable the board of directors to require any non-shareholder whom the directors know or have reasonable cause to believe has or had an interest in the shares of the body corporate to supply information about their interests in the previous three years;
 - enable the board of directors to deprive any shareholder of the right to vote if the information asked for in regulations 5(1)(g)(ii) or 5(1)(g)(iii) is not given in the time specified in the request;
 - enable the board of directors to deprive any shareholder of the right to vote if the body corporate's application for an auditing certificate is refused or the auditing certificate has been withdrawn by the Admissions and Licensing Committee and the body corporate has been told that the refusal or withdrawal relates to the ownership of any shareholding; and
 - require the board of directors to approve any transfer of shares which would result in a shareholder having an interest representing more than 3 per cent of the aggregate nominal value of the issued share capital;
 - it undertakes to be bound by the Global Practising Regulations including this Annex 1, the Complaints and Disciplinary Regulations, the Membership Regulations and the Charter and byelaws insofar as they are applicable to it;
 - it has arrangements to prevent individuals who do not hold an appropriate qualification for the purposes of Part 42 of the Companies Act 2006 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; and
 - it satisfies any other eligibility criteria set by the UK competent authority.
- (2) A firm that is eligible for appointment as a statutory auditor under regulation 5(1) above and which wishes to be eligible for appointment as a statutory auditor of a public interest entity must also meet and comply with the requirements of the UK competent authority's Public Interest Entity (PIE) Auditor Registration Regulations.
- (3) A firm which has ceased to comply with the conditions under 5(1)(a) or 5(1)(b) above may be permitted to remain eligible for appointment as an auditor for a period of not more than three months.

Global Practising Regulations (Annex 2, Appendix 1) Section 5 details the eligibility requirements for a firm to be eligible for an Audit Certificate in the Republic of Ireland.

Extract of GPR Annex 2 Appendix 1 Section 5

5. Eligibility for approval as a statutory audit firm

- 1) A firm shall be eligible for approval as a statutory audit firm in accordance with section 1473 of the Companies Act 2014 of the **Republic of Ireland** if:
- each of the individuals responsible for the firm's audit work are approved as statutory auditors in accordance with section 1464 of the Companies Act 2014 of the Republic of Ireland;
 - it is controlled by qualified persons within the meaning of regulation 7;
 - it is fit and proper within the meaning of regulation 8;
 - it holds the necessary PII in accordance with regulation 10;
 - it has made arrangements for the continuity of its practice in accordance with regulation 12;
 - it has appointed a Compliance Principal;
 - it undertakes to be bound by the Global Practising Regulations including this Annex 2, the Complaints and Disciplinary Regulations, the Membership Regulations and the Charter and bye-laws insofar as they are applicable to it;
 - it has 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; and
 - it satisfies any other eligibility criteria set by the Irish competent authority.
- The Association's auditing certificate will convey to the holder the necessary authorisation to act as a statutory audit firm and to carry out statutory audit work.
- 2) A firm which has ceased to comply with the conditions (a) and (b) in regulation 5(1) may be permitted to remain eligible for appointment as a statutory audit firm for a period of not more than three months.