

# Proposed Public Interest Entity Auditor Registration Regulations

A consultation issued for public consultation by the Financial Reporting Council (FRC)

Comments from ACCA

26 May 2022

Ref: TECH-CDR-1999

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **233,000** members and **536,000** future members based in **178** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. In December 2020, we made commitments to the UN Sustainable Development Goals which we are measuring and will report on in our annual integrated report. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at [accaglobal.com](https://accaglobal.com)



Further information about ACCA's comments on the matters discussed here can be requested from:

**Maggie McGhee**

Executive Director – Strategy and Governance

[maggie.mcghee@accaglobal.com](mailto:maggie.mcghee@accaglobal.com)

**Sundeep Takwani**

Director – Practice Regulation

[sundeep.takwani@accaglobal.com](mailto:sundeep.takwani@accaglobal.com)

**ACCA**



+44 (0)20 7059 5000



[info@accaglobal.com](mailto:info@accaglobal.com)



[www.accaglobal.com](http://www.accaglobal.com)



The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

## GENERAL COMMENTS

---

ACCA welcomes the opportunity to comment on the FRC's proposals to introduce new requirements for the approval and registration of audit firms and responsible individuals (**RIs**) who undertake Statutory Audit Work in respect of public interest entities (**PIEs**). These proposals arise from key recommendations in the Kingman review of the FRC in 2018, and Government policy proposals in the BEIS 2021 consultation on restoring trust in audit and corporate governance.

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. In our response to the Kingman review<sup>1</sup>, ACCA recommended that the FRC should focus on matters of public interest and business that poses a systemic risk to the economy, given that public confidence in audit is decreasing and large corporate failures have led to a lack of confidence in the regulator by Parliament and by the wider public.

We are therefore supportive of the proposed new PIE auditor approval and registration process (**PIE Registration**) which will be separate from, and additional to, the existing Recognised Supervisory Bodies (**RSBs**) audit registration process for Statutory Auditors. As the Consultation Document highlights, the new arrangements should enhance audit quality and firm resilience, and the augmentation to the FRC's Supervisory Toolkit should enable it to become increasingly assertive in holding to account audit firms and RIs who undertake PIE audit work. However, we have identified some areas of concern, and these are highlighted in our responses to the questions raised where appropriate.

In particular, the FRC should act reasonably and in the interests of natural justice when applying the PIE Registration powers to protect the public interest and ensure that overlapping powers with the RSBs are managed appropriately. We would expect a communications mechanism to be in place for the RSBs to be informed of any concerns identified by the FRC in relation to PIE Registration, so that the RSBs can consider whether it impacts the firm's audit registration for non-PIE work. The effectiveness of the collaboration between the FRC, audit firms and the RSBs will be pivotal to establishing arrangements that work well in practice.

We also have concerns that a separate PIE Registration will add a further complexity to the existing arrangements for the oversight of statutory audit and could impact on the attractiveness of the profession, in particular if the Government seeks to extend the PIE definition. As outlined

---

<sup>1</sup> [ACCA's response to the Kingman Independent Review of the FRC](#)



in our response to the BEIS consultation<sup>2</sup>, anecdotal evidence suggests that firms would choose to exit the market to avoid the additional requirements for PIE audits that would be placed on them. This is particularly true when they have only a small number of such audits. It is therefore likely that the proposed new PIE Registration will further concentrate the audit of PIEs on a smaller number of firms. This unintended consequence would not be desirable.

## AREAS FOR SPECIFIC COMMENT

---

### **Question 1: Do you envisage any problems with the proposed effective date of the draft PIE Regulations? Please provide supporting reasons for your views or proposals.**

The PIE Regulations will come into force for the purposes of the operation of the Transitional Regulations in Annex 1 only 8-12 weeks before the PIE Regulations take full effect. The Introduction to the draft PIE Regulations does not yet specify when the regulations come into force. However, the consultation states that it is the FRC's current expectation that the new PIE Registration process will be implemented on and from September 2022.

The FRC should provide time for audit firms to prepare for the introduction of the new PIE Regulations. The new requirements will place additional burdens on PIE auditors and the RSBs and therefore sufficient notice of the changes is required to support effective implementation. The timeframe for implementation is ambitious but we believe it provides sufficient time for reflection on the responses to this consultation and implementation of adjustments.

### **Question 2: Are there other terms which would benefit from being included in the list of definitions? If so, could you please clarify what these are.**

The list of definitions covers a broad range of terms contained within the draft PIE Regulations. However, we suggest that the criteria for assessing and determining the 'public interest' and the term 'PAR Tribunal Panel' would benefit from being included in the list of definitions.

---

<sup>2</sup> [ACCA's response to the BEIS consultation – Restoring trust in Audit and Corporate Governance](#)



**Question 3: Is there any other information which should be included on the PAR? If so, please clarify what additional information should be included and the reason for the suggestion.**

The information which will be included on the PIE Auditor Register (**PAR**) appears sufficient. In particular, we welcome the publication of decisions under the registration process where it is in the public interest to do so, as this provides transparency in the registration process. However, we are concerned that there may be a small number of other scenarios in which the ability to withhold publicity may be appropriate. This includes where decisions relate to sensitive matters including health and other matters where the negative impact upon the individual is greater than the public interest benefit derived from publicity.

**Question 4: Do you agree with the PIE Registration Requirements which have been listed for audit firms in Part 4? If you do not agree, what other PIE Registration Requirements do you consider are necessary, in addition to or in place of those which have been listed for audit firms in Part 4?**

We agree with the PIE Registration Requirements listed for audit firms in Part 4 and we have not identified any other requirements which should be included.

**Question 5: Do you agree with the PIE Registration Requirements which have been listed for RIs in Part 5? If you do not agree, what other PIE Registration Requirements do you consider necessary, in addition to or in place of those which have been listed for RIs in Part 5?**

Similarly, we agree with the PIE Registration Requirements listed for RIs in Part 5 and we have not identified any other requirements which should be included.

**Question 6: Do you agree with the Registration Requirement that RIs must have signed a PIE Audit Report in the last 12 months or expect to sign PIE Audit Reports in the forthcoming 12 months (subject to any longer period if agreed with the FRC)?**

The Registration Requirement set out in Annex 1, Regulation 1(d) that RIs must have signed a PIE Audit Report in the last 12 months or expect to sign PIE Audit Reports in the forthcoming 12 months appears reasonable and will ensure the RI has required competence and experience to audit PIEs. We welcome the FRC's flexibility in the application of this transitional requirement.



**Question 7: Draft Guidance on the PIE Registration process is available alongside this consultation. The Guidance will be kept under continuous review. Do you have any comments or concerns with respect to the draft Guidance?**

The draft Guidance on the PIE Registration process is comprehensive and the manual is an essential resource for all stakeholders involved in PIE Auditor Registration. We welcome the additional guidance for RSBs. However, we are disappointed to note that key guidance is yet to be completed in relation to Annex B: Information sharing protocols; Annex G: Consistent decision making with RSBs; and Annex H: Relationship with the FRC's Audit Enforcement Procedure. We would expect this Guidance to be shared with stakeholders prior to the commencement of the Transitional Period.

**Question 8: Do you think the draft PIE Regulations sufficiently detail the information that is required for PIE Registration? If not, what suggestions do you have to clarify the PIE Regulations?**

The draft PIE Regulations adequately detail the information that is required for PIE Registration and further information is provided in the Guidance Manual, including clarification of the factors that may be considered when assessing applications in relation to the public interest.

**Question 9: Are there any further steps you consider that we could take to ensure the PIE Registration process works effectively alongside the registration process already operated by the RSBs?**

ACCA welcomes the involvement of RSBs in the PIE Registration process to ensure that it works effectively alongside the registration process we already operate for statutory audit firms and statutory auditors in the UK. The sharing of information between the FRC and RSBs on matters related to PIE audit firms and responsible individuals (**RI**s) is essential to support the effective delivery of our regulatory and disciplinary functions, and build public confidence in the PIE audit market.



**Question 10: It may be necessary or appropriate for the FRC to impose Conditions on Applicants or audit firms and/or RIs as part of the PIE Registration process. Do you think the process for imposing Conditions is fair and proportionate?**

We believe the process for imposing Conditions on Applicants or audit firms and/or RIs as part of the PIE Registration process is fair and proportionate.

**Question 11: It may be necessary for the FRC to publish decisions regarding Conditions, when the FRC considers this to be in the public interest. Are there any circumstances in which you think it would not be appropriate to publish details of Conditions?**

We are not aware of any circumstances in which it would not be appropriate to publish decisions regarding Conditions on Applicants or audit firms and/or RIs as part of the PIE Registration process.

**Question 12: Can you foresee any issues with the FRC's proposal to publish anonymised information regarding Conditions on a periodic basis?**

We welcome the FRC's proposal to publish anonymised annual summaries by type of measure (such as Conditions, Undertaking, suspension and removal) on a periodic basis. We believe this is a proportionate approach, providing transparency in the PIE Registration process, and we do not foresee any issues with this.

**Question 13: The FRC may wish to agree Undertakings with Applicants or audit firms and/or RIs as part of the PIE Registration process. Do you think the process for agreeing Undertakings is fair and proportionate?**

We believe the process for agreeing Undertakings with Applicants or audit firms and/or RIs as part of the PIE Registration process is fair and proportionate.

**Question 14: Do you agree with the position that Undertakings should generally not be publicised unless there is a particular public interest in doing so?**

Yes, in our opinion Undertakings should generally not be publicised on the PAR unless there is a particular public interest in doing so. We note the FRC's current expectation that there will



usually be no publicity for Undertakings, as these address matters that are less serious or onerous than matters for which Conditions will be considered.

**Question 15: Can you foresee any issues with the FRC's suggestion to publish anonymised information regarding Undertakings on a periodic basis?**

As noted in our response to Question 12 above, we welcome the FRC's proposals in relation to the publication of anonymised annual summaries by type of measure on a periodic basis.

**Question 16: Does the process for granting waivers address all of the potential circumstances where a waiver may be necessary? If you do not agree, please provide an explanation of your response.**

The process for granting waivers from compliance with the PIE Registration Requirements specified in Parts 4 and 5 of the PIE Regulations appears to address all of the potential circumstances where a waiver may be necessary. We note that waivers will not be offered indefinitely and the audit firm and/or RI will be expected to remedy the situation. We are also pleased to see that the FRC will work closely with the RSB in these situations, as temporary non-compliance may also affect the audit firm's and/or RI's registration with their RSB.

**Question 17: It may be necessary for the FRC to suspend an audit firm and/or RI as part of the PIE Registration process. Do you think the process for imposing a suspension is fair and proportionate?**

We note that the draft PIE Regulations appear to provide the FRC with unfettered discretion to take action, including to suspend (with or without notice) and remove auditors and an RI's ability to undertake PIE audits, which may have a significant impact on the individuals and firms involved.

Whilst ACCA recognises the importance of such powers, we are concerned that this discretion could have unintended consequences and suggest that there be an explicit requirement upon the FRC to act reasonably and in the interests of natural justice when exercising discretion. In addition, further clarity should be provided on the importance and application of protecting the public interest in a proportionate manner that is not unduly penal. We also believe further consideration should be given to publicity and the issues highlighted in our response to Question 3 above, as these are equally relevant to the suspension of PIE Registration.



ACCA also suggests that the FRC considers whether it is appropriate to include independent decision makers, particularly in relation to decisions to suspend and remove. We consider that such reviews are important to ensure objectivity of decision making and to mitigate the risk that the public perceive a lack of rigour (contrary to the public interest) or, alternatively, a lack of fairness towards the firm or RI.

**Question 18: To what extent do you agree with the consequences of a suspension of PIE Registration?**

ACCA is generally supportive of the consequences of a suspension of PIE Registration. However, we are concerned that suspended audit firms and RIs may continue to sign PIE Audit Reports, provided they have obtained a waiver from the FRC. We believe this should be decided on a case-by-case basis with a focus on protecting the public interest in a proportionate manner and in a way that this not unduly penal. This is particularly relevant to regulation 11.7 in the draft PIE Regulations.

**Question 19: It may be necessary for the FRC to issue urgent decisions which are in the public interest and come into immediate effect. Do you think the process for imposing an urgent decision is fair and proportionate?**

In our responses to Questions 17 and 18 above we raised concerns about the fairness and proportionality of the process for suspensions of PIE Registration. These concerns also apply to the process for imposing urgent decisions which are in the public interest and come into immediate effect. Again, it is important to work closely with the relevant RSB in matters dealt with as an 'urgent' decision.

**Question 20: It may be necessary for the FRC to refuse an application from an audit firm and/or RI wishing to request voluntary removal from the PAR if it is in the public interest to do so. Do you think the process for refusing a voluntary removal request is fair and proportionate?**

ACCA is supportive of the principle to refuse a voluntary removal request from an audit firm and/or RI if it is in the public interest to do so. However, we have highlighted concerns about the proportionality and fairness of the process for suspending PIE Registration which should be reflected in the guidance on voluntary removal within Chapter 8 of the Guidance Manual.



**Question 21: Do you think the grounds for internal review and appeal are sufficiently clear in the PIE Regulations?**

Yes, the grounds for internal review and appeal are sufficiently clear in the PIE Regulations.

**Question 22: To what extent do you agree that the PAR Tribunal Panel is suitably independent to review PIE Registration decisions?**

We believe the PAR Tribunal Panel, established in accordance with the FRC's 'Tribunal and Appeal Panel Terms of Appointment', is suitably independent to review PIE Registration decisions. However, in our opinion the PIE Regulations should provide a definition of the 'PAR Tribunal Panel' and reference the Terms of Appointment, as the PIE Regulations do not address the constitution, powers and responsibilities of the PAR Tribunal Panel.

**Question 23: Do you have any comments on the Appeals Rules and how they would work in practice?**

We have no further comments on the Appeals Rules and their application.

**Question 24: Are the PIE Regulations sufficiently clear and comprehensive in respect of notifying the FRC of a change in circumstances?**

We believe the requirements in the PIE Regulations for all audit firms to notify the FRC of a Relevant Change are sufficiently clear and comprehensive.

**Question 25: Do you think the PIE Regulations clearly explain the steps an audit firm must take if an audited entity comes into PIE scope part-way through the audit?**

Yes, the PIE Regulations clearly explain the steps an audit firm must take if an audited entity comes into PIE scope part-way through the audit.



**Question 26: Do you think the PIE Regulations clearly explain the process for the audit firm's Annual Return and the subsequent consideration by the FRC of the audit firm's PIE Registration?**

Yes, the PIE Regulations clearly explain the process for the audit firm's Annual Return and the subsequent consideration by the FRC of the audit firm's PIE Registration.

**Question 27: Are there any additional information sources the FRC should consider accessing when considering an audit firm's or RI's PIE Registration?**

We have no further insights on additional information sources the FRC should consider accessing when considering an audit firm's or RI's PIE Registration.

**Question 28: Do the PIE Regulations clearly explain what information must be submitted by existing audit firms during the Transitional Application process? If not, what suggestions do you have?**

We agree that the PIE Regulations clearly explain what information must be submitted by existing audit firms during the Transitional Application process and we have not identified any further information which should be submitted.

**Question 29: To what extent do you consider the new PIE Registration process will contribute towards the FRC's strategic aim of improving PIE audit quality? Are there any additional ways the FRC can use the PIE Registration process to help drive up audit quality?**

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. In our response to the Kingman review<sup>1</sup>, ACCA recommended that the FRC should focus on matters of public interest and business that poses a systemic risk to the economy. We are supportive of the proposed new PIE Registration and we believe the new arrangements should enhance audit quality and firm resilience. As highlighted in the Consultation Document, the augmentation to the FRC's Supervisory Toolkit should enable it to become increasingly assertive in holding to account audit firms and RIs who undertake PIE audit work. However, while the FRC will now determine an audit firm's registration for PIE audit work, including any conditions or restrictions, we note that the proposals do not appear to extend the FRC's powers.



A separate PIE Registration will add a further complexity to the existing arrangements for the oversight of statutory audit and could impact on the attractiveness of the profession, in particular if the Government seeks to extend the PIE definition. As outlined in our response to the BEIS consultation<sup>2</sup>, anecdotal evidence suggests that firms would choose to exit the market to avoid the additional requirements for PIE audits that would be placed on them. This is particularly true when they have only a small number of such audits. It is therefore likely that the proposed new PIE Registration will further concentrate the audit of PIEs on a smaller number of firms. This unintended consequence would not be desirable.

In our response to the Kingman review<sup>1</sup>, we commented on the FRC's effectiveness at driving quality improvements in audit and further improvements we would like to see. In particular, we were supportive of the use of a variety of approaches by the FRC to enhance audit quality. The FRC is responsible for the ongoing monitoring and mitigation of risks in the wider audit market, and we believe firm specific investigations are critical to meeting this objective. In our opinion, the impact of wider thematic reviews and wider research pieces (such as the reviews of extended auditor reporting) has led to improvements in audit quality and auditor reporting.

The FRC needs to act with speed and agility and allow for a timely consideration of the issues, root cause analysis or wider market impact. It is important that enforcement activities are adequately resourced and can address the increasingly complex issues which are presented and reduce challenge of bias or lack of robustness. The PIE Registration process provides an opportunity to help drive up PIE audit quality through transparency in the registration, investigation and enforcement of PIE auditors.

**Question 30: Are there any additional provisions you believe we should include in the PIE Regulations?**

As highlighted in our response to Question 22 above, we believe the PIE Regulations should include additional provisions in relation to the 'PAR Tribunal Panel'.

**Question 31: What are your views on the timescales (working days) stated in the PIE Regulations to provide information, submissions or explanations to the FRC?**

The timescales (working days) stated in the PIE Regulations to provide information, submissions or explanations to the FRC appear reasonable and we have no further comments.

