



Financial Reporting Council

# **PIE Auditor Registration Regulations**

## **Consultation Feedback Statement**

August 2022

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## Introduction

1. Earlier this year (from 14 April until 26 May 2022) the FRC consulted on its 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 PIEs. As explained in the consultation, these proposals arose out of recommendations made by Sir John Kingman and adopted by the Government.
2. The new PIE auditor approval and registration process ('PIE Auditor Registration') will be separate from, and additional to, the existing Recognised Supervisory Body ('RSB') audit registration process for statutory auditors (which will continue to apply). The PIE Auditor Registration process will apply only to audit firms who undertake PIE audit work and RIs with responsibility for signing a PIE audit report.
3. The PIE Auditor Registration Regulations ('Regulations') prescribe how PIE Auditor Registration will operate. The consultation covered the Regulations and Eligibility Criteria. Respondents were asked to comment on whether the various sections of the Regulations were sufficiently clear and easy to follow. Respondents were also asked whether the requirements and measures found in the Regulations were proportionate and fair in all the circumstances. The FRC posed 31 questions to which respondents were invited to reply. Those questions have been summarised in the 'FRC Responses' sections below.

## Respondent Overview

4. In total, 17 responses were received (listed in Appendix A). Of those responses:
  - Eight were from audit firms (including six of the largest UK audit firms)
  - Four were from the RSBs
  - Three were from other interested parties
  - One was from the National Audit Office
  - One was from an individual working in the audit sector
5. In addition to the written consultation, the FRC has regularly engaged with the project's key stakeholders. The feedback from stakeholder engagement events has largely matched that of the written responses to the consultation.
6. The responses were generally supportive of the FRC's proposals, noting that the additional process for registration would enhance public confidence in those conducting audits of PIEs. The responses considered the proposals were generally proportionate to the aim of improving audit quality across the PIE audit market.

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7. One respondent wrote:

*"We support greater involvement of the FRC in registration activities for those firms for which it has most direct involvement, such as those auditing PIEs, as a means of continuing to drive audit quality improvements. We also support the FRC's stated principles in implementing PIE auditor registration."*

8. The FRC will continue to work with PIE Auditor Registration stakeholders with a view to reducing any additional administrative burden, where possible, but with the aim of ensuring maximum impact is achieved in the PIE audit market in terms of improving and maintaining audit quality.
9. The FRC has summarised in the following sections of this document the key points that have been raised by respondents, along with the FRC's views on the issues raised. These have been ordered by reference to the Part of the Regulations to which the comments relate.
10. It would not be proportionate for the FRC to respond in this document to every issue raised by the respondents. Nonetheless, all responses and every suggestion raised have been considered by the FRC, and suggestions have been implemented where appropriate.
11. In addition, some respondents made proposals for specific drafting changes to the Regulations. While this document does not refer to every proposed drafting change, where the FRC agreed the proposed change would improve the quality of the Regulations, the change was implemented.
12. A full copy of the revised Regulations will be published on the FRC's registration webpage ([FRC PIE Auditor Registration webpage](#)) to coincide with the issuing of this response document.

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# FRC Responses

## 1. Introduction (Regulations, Part 1)

### What the consultation proposed

- 1.1. This section describes the legal basis for the Regulations. It also explains that, to undertake PIE statutory audit work, an audit firm or RI must have been approved and registered in accordance with the Regulations.
- 1.2. Respondents were asked whether they envisaged any problems with the effective date of the Regulations.

### Matters arising from consultation responses

- 1.3. 13 of the respondents suggested the 'go live' date should be moved. Respondents said the proposed date would give them insufficient time to properly prepare their applications. Respondents also noted that the transitional period was due to begin in August, when many people will be on summer holidays.
- 1.4. One respondent described the proposed timetable as "*ambitious*" considering the importance of the project.

### The FRC's response

- 1.5. The FRC has considered the responses regarding the proposed implementation timetable for PIE Auditor Registration and notes the strong feeling from respondents that the timetable as proposed in the consultation may cause them difficulties. As such, the FRC has decided to amend the implementation timetable as follows:
  - Transitional period to begin on 5 September 2022 and end on 4 December 2022 (three months)
  - Go live date to be changed to 5 December 2022 (from this date, only full applications will be accepted)
- 1.6. The FRC considers the additional time should be sufficient for audit firms to prepare and submit their applications. The new timetable also avoids the summer holiday period.

## 2. Definitions and interpretation (Regulations, Part 2)

### What the consultation proposed

- 2.1. This section sets out definitions of the relevant terms and phrases that are used in the Regulations. It also establishes some rules for interpretation of the Regulations.
- 2.2. Respondents were asked if there were any other terms which required clarification.

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## Matters arising from consultation responses

- 2.3. Six respondents stated they were content that the definitions and interpretations section of the Regulations was sufficiently clear and comprehensive. While other respondents highlighted areas where they requested more clarification, these largely related to issues that will be covered in the guidance document as opposed to the Regulations. Further detail on the changes included in the guidance have been addressed in Section 6 below.

## The FRC's response

- 2.4. The FRC does not intend to make any significant changes to Part 2 of the Regulations but has included some additional definitions for clarity. The drafting of some other definitions has also been amended and/or clarified.

## 3. Content of the PAR (Regulations, Part 3)

### What the consultation proposed

- 3.1. This section sets out that the FRC will establish and maintain a published PIE Auditor Register ('PAR'). The PAR will contain the information prescribed by the Regulations (such as the name, registered office and RSB details for the audit firm, and name, firm and RSB details for RIs). The PAR will also include a hyperlink to the Register of Statutory Auditors. It is intended that the information included on the PAR will be moved to the Register of Statutory Auditors when the latter has been upgraded.
- 3.2. Respondents were asked if there is any other information that should be included in the PAR.

### Matters arising from consultation responses

- 3.3. There were 11 responses to this question. Seven respondents were content with the proposal of what will be published on the PAR. The other respondents were requesting more clarity on when and how the transition to the Register of Statutory Auditors would occur.

### The FRC's response

- 3.4. The FRC has not made any changes (other than minor drafting edits) to Part 3 of the Regulations.

## 4. Registration Requirements for PIE Registered Audit Firms (Regulations, Part 4)

### What the consultation proposed

- 4.1. This section sets out the requirements that an audit firm must meet to be approved and registered on the PAR. The consultation proposed, inter alia, that these requirements should include:

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- Audit firms must know, or have reasonable grounds to believe, that they will undertake at least one audit of a PIE within the period of 12 months following the date on which the application is received by the FRC (unless a longer period is agreed with the FRC)
  - Audit firms must have adequate procedures in place to monitor the competence and experience of their RIs included on the PAR, and all Principals and employees who are involved in PIE audit work
  - Audit firms will be required to satisfy the FRC of the fit and proper status of the audit firm and its RIs included on the PAR
  - Audit firms must ensure they have at least the minimum level of Professional Indemnity Insurance, set by the RSB with which they are registered
- 4.2. Respondents were asked if they agree with the registration requirements found in Part 4 of the Regulations.

### **Matters arising from consultation responses**

- 4.3. Ten respondents suggested the requirement that an audit firm must intend to start a PIE audit within 12 months of registration, was too short a timeframe. Respondents noted that audit tenders are often carried out more than a year in advance of the audit commencing. Respondents largely suggested 24 months as an alternative timeframe.
- 4.4. One respondent noted the RSBs already have responsibility for assessing the governance arrangements of audit firms, and therefore for the FRC to do so could be seen as duplicative.
- 4.5. Three respondents noted this part of the Regulations refers to fees which may be set by the FRC and asked for clarification of whether any fees will be introduced in respect of PIE Auditor Registration.

### **The FRC's response**

- 4.6. In light of the feedback received, the FRC has decided that Regulation 4 will be amended to require that an audit firm must know, or believe, it will audit a PIE within 24 months of its application for registration and then to confirm in its Annual Return that it knows or believes that it will audit a PIE within the next 24 months.
- 4.7. This change will allow audit firms to apply for registration should they be involved in a tender process where statutory audit work will not start within 12 months.
- 4.8. In relation to governance, while the FRC acknowledges that the RSBs have and will maintain responsibility for assessing the governance arrangements of an audit firm, the FRC will focus on ensuring those governance arrangements are sufficiently robust for an audit firm to operate in the PIE audit market, which has greater associated risks for the public.
- 4.9. Should concerns arise regarding an audit firm's governance arrangements, the FRC would, where it is reasonably practicable to do so, expect to work closely with the relevant RSB's

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Registration Committee. The FRC would also – again to the extent it is reasonably practicable to do so – expect that the FRC and RSBs would seek to avoid the duplication of regulatory measures.

- 4.10. In respect of fees, the FRC is not proposing to introduce any additional fees in respect of PIE Auditor Registration at this point.

## **5. Registration Requirements for a PIE Registered RI (Regulations, Part 5)**

### **What the consultation proposed**

- 5.1. This section sets out the requirements that an RI must meet to be approved and registered on the PAR. The consultation proposed, inter alia, that requirements should include:
- RIs can apply for approval and registration to carry out PIE audit work if they know, or have reasonable grounds to believe, that they will undertake PIE statutory audit work within the period of 12 months following their application being received by the FRC (unless a longer period is agreed with the FRC)
  - RIs must ensure that they maintain their competence and experience to carry out PIE audit work
  - RIs must satisfy the FRC about their fit and proper status
- 5.2. Respondents were asked if they agree with the registration requirements found in Part 5 of the Regulations.

### **Matters arising from consultation responses**

- 5.3. As with the previous question, the same respondents raised concerns regarding the 12-month timescale. The requirement for RIs to rotate was an example of where the 12-month timescale may clash with other operational requirements. Some respondents also suggested the 12-month timeframe might disadvantage those on maternity leave or those absent with long-term health issues.
- 5.4. Four respondents suggested the FRC should consider registering staff who will not be responsible for signing a PIE audit report, such as Engagement Quality Control Reviewers ('EQCRs') and Heads of Audit.

### **The FRC's response**

- 5.5. In light of the feedback received, the FRC has decided that Regulation 5 will be amended to require that an RI must know, or believe, they will undertake PIE statutory audit work within 24 months of their application for registration.
- 5.6. The FRC will assess each individual's circumstances when considering whether to grant an application. These may include circumstances where the applicant RI – at the time of



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submitting their application for PAR registration – is not planned to undertake PIE statutory audit work in the immediately forthcoming 24 months.

- 5.7. The FRC maintains that its focus is to register only those who are responsible for signing PIE audit reports. This is so PIE Auditor Registration can reinforce the skills and competence needed for the role of a signing RI.
- 5.8. While the FRC recognises the important part that EQCRs and Heads of Audit play in maintaining the quality of PIE audits, the Regulations have been developed so that only RIs who sign PIE audit reports need to be PAR registered. As such, the FRC may consider applications from EQCRs or Heads of Audit, but this should only be where that individual is also signing PIE audit reports or expects to do so.

## **6. Applications for registration (Regulations, Part 6)**

### **What the consultation proposed**

- 6.1. This section sets out the main principles for audits firms and RIs to submit their applications for PIE Auditor Registration. The consultation also referred to the draft guidance which was published by the FRC alongside the consultation.
- 6.2. Respondents were asked if they had any comments or concerns regarding the draft guidance.

### **Matters arising from consultation responses**

- 6.3. Respondents acknowledged the need for guidance to support and expand on the Regulations, and many felt that further detail and explanation was needed. Respondents highlighted the areas of the guidance which were yet to be completed in the published version.
- 6.4. Nine respondents wanted further clarification and assistance with the information that is required to demonstrate compliance with the registration requirements. Also, respondents noted that the description of when an audit firm or RI 'undertakes PIE audit work', was incomplete.
- 6.5. There was also highlighted a need for greater clarity around the definition of 'public interest' in the context of PIE Auditor Registration.
- 6.6. Furthermore, seven respondents noted there were no KPIs in the draft guidance indicating, for example, how long the FRC would take to process new applications and annual returns.

### **The FRC's response**

- 6.7. The FRC acknowledges that the initial draft guidance that was published alongside the consultation was provisional and incomplete. It was published to promote transparency and to help stakeholders better understand the wider proposals. The FRC intends to publish full guidance before 5 December 2022.

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- 6.8. The FRC will take account of the helpful suggestions regarding potential improvements to the guidance that were provided by several of the consultation respondents.
- 6.9. To assist applicants during the transitional period, the FRC will also issue guidance for transitional applications, which will be published alongside this feedback statement. This guidance is aimed at helping audit firms understand how they should demonstrate compliance with the registration requirements in their application. For example, there are suggestions for how an audit firm should demonstrate:
- Continuing competence and experience for PIE audit work
  - Appropriate resources for an audit firm operating in the PIE audit market
  - Appropriate governance arrangements for an audit firm operating in the PIE audit market
  - Appropriate systems of quality management for an audit firm operating in the PIE audit market
- 6.10. The transitional guidance, and the full registration guidance, will contain the FRC's KPIs for processing applications. It may also contain KPIs for other categories of decision under the Regulations.

## **7. Assessment of Applications (Regulations, Part 7)**

### **What the consultation proposed**

- 7.1. This section sets out how the assessment of applications will be carried out by the FRC, including where an application may be refused, or where applications may only be approved with Undertaking or Conditions, for example, where this is in the public interest or to meet the registration requirements.
- 7.2. Respondents were asked to consider whether the draft Regulations sufficiently detail the information that is required for PIE Auditor Registration. Respondents were also asked whether any further steps could be taken to ensure the PIE Auditor Registration process works effectively alongside the registration process already operated by the RSBs.

### **Matters arising from consultation responses**

- 7.3. Eight respondents stated the decision-making framework required further clarification and suggested the FRC issue case study examples to help explain when certain measures, such as Undertakings and Conditions, would be used.

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## The FRC's response

- 7.4. As noted above, the FRC will publish guidance to support the implementation of the Regulations before 5 December 2022. This guidance is expected to be a 'living document' that is regularly updated.
- 7.5. The FRC does not intend to create case study examples prior to PIE Auditor Registration commencing. Registration issues are often highly complex and decisions will depend on individual circumstances. The FRC does not feel it could adequately address the varied issues that may arise through the use of case study examples.
- 7.6. As stated in the consultation, the FRC will publish thematic reports after the PAR process has been operational for sufficient time to report on trends. These thematic reports will provide anonymised summaries and examples of actual cases where measures have been applied and the factors that led FRC decision-makers to decide those measures were appropriate.

## 8. Conditions (Regulations, Part 8)

### What the consultation proposed

- 8.1. This section sets out the process where the FRC will consider applying Conditions to an audit firm or RI on the PAR or as part of their application. It also explains the implications for the audit firm or RI subject to those Conditions, including compliance and monitoring by the FRC. Finally, it explains that Conditions may be published, unless the FRC considers that it is not in the public interest to do so.
- 8.2. Respondents were asked whether they considered the process for imposing Conditions to be proportionate and fair; whether there were any circumstances when it would not be appropriate to publish Conditions; and whether there are any concerns with the FRC publishing anonymised information about Conditions on a periodic basis.

### Matters arising from consultation responses

- 8.3. Three respondents suggested that Conditions should not be published, citing the potential impact on the entities where their audit firm or RI has published Conditions on their PIE Auditor Registration.
- 8.4. Ten of the respondents supported the FRC publishing anonymised information, as long as the audit firm and/or RI cannot be identified by any of the information that is published.

## The FRC's response

- 8.5. The FRC intends to publish a publication policy for PIE Auditor Registration. This is expected to address factors to be considered by decision-makers when they are deciding whether or not to publish a decision, including a decision to apply Conditions to an RI's or audit firm's registration. The list of factors would be expected to include the impact that publication will have on an audited entity.

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- 8.6. The FRC is pleased that most respondents were in favour of the FRC publishing anonymised thematic reports which will include details of Conditions that have been imposed on audit firms and RIs. It will be a valuable tool for sharing learning and will highlight areas where audit firms may wish to strengthen their procedures and processes.
- 8.7. The FRC will ensure that the processes for publishing thematic reports contain sufficient safeguards to ensure that audit firms and RIs are not unintentionally identified.

## **9. Undertakings (Regulations, Part 9)**

### **What the consultation proposed**

- 9.1. This section sets out the process for agreeing Undertakings with an audit firm or RI who is on, or who is applying to be on, the PAR. The section also sets out the processes for the monitoring of and compliance with Undertakings, once they are in place. Undertakings are intended to deal with less serious matters and are designed to be less onerous than Conditions.
- 9.2. Respondents were asked whether they considered the process for agreeing Undertakings to be proportionate and fair; whether they agreed that Undertakings should generally not be published; and whether there are any concerns with the FRC publishing anonymised information about Undertakings on a periodic basis.

### **Matters arising from consultation responses**

- 9.3. There were 11 responses to the question of Undertakings being proportionate and fair. Eight respondents were broadly in favour of the use of Undertakings within the suite of powers open to decision-makers under the Regulations. Some respondents requested more clarity on the nature and timing of Undertakings to be included in the guidance.
- 9.4. Most of the respondents also agreed with the proposition that Undertakings should not usually be published, albeit thematic issues arising from Undertakings should be published in an anonymised report.

### **The FRC's response**

- 9.5. The FRC is content that there is support for the use of Undertakings. The FRC expects to engage with affected audit firms and RIs to agree appropriate Undertakings. Audit firms and RIs would typically be given the opportunity to make suggestions for changes before the Undertakings are finalised.

## **10. Waivers (Regulations, Part 10)**

### **What the consultation proposed**

- 10.1. This section specifies that waivers can be requested where a PIE Registered Audit Firm or a PIE Registered RI believes they will be unable to meet one or more of the registration requirements set out in Parts 4 and 5 of the Regulations. This section sets out the process

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audit firms and RIs must follow when applying for a waiver. It also explains the procedure the FRC will follow to monitor and, if necessary, extend or end waivers.

- 10.2. Respondents were asked whether the process for granting waivers addresses all the potential circumstances where a waiver may be necessary.

## **Matters arising from consultation responses**

- 10.3. There were 11 responses to this question. Nine respondents were supportive of the need for waivers within the PIE Auditor Registration process. Some respondents felt that the FRC should provide clearer guidance on when a waiver might be used, as opposed to one of the other measures open to decision-makers.

## **The FRC's response**

- 10.4. A waiver is one of several measures that can be used by the FRC when a PIE Registered Audit Firm or a PIE Registered RI is not (or soon may not be) in compliance with one or more of the registration requirements. As with other measures, the situations when a waiver will be appropriate will depend on individual circumstances. The FRC would therefore not be able to sufficiently address all such circumstances by providing case study examples.
- 10.5. As with other measures, the FRC will publish thematic reports which will demonstrate the circumstances where waivers have been issued to a PIE Registered Audit Firm or PIE Registered RI.
- 10.6. Where the requirements in Part 10 of the Regulations are met, the FRC considers it important to have an ability to grant waivers in order that PIE audit work is not unduly interrupted because of temporary non-compliance. No changes have been made to the Regulations in this area.

# **11. Suspension of registration (Regulations, Part 11)**

## **What the consultation proposed**

- 11.1. This section sets out the circumstances where the FRC may consider that a suspension of an audit firm's or RI's registration is necessary. This section also sets out the requirements for the FRC to seek representations from the audit firm or RI before a suspension is imposed, and the consequences for an audit firm or RI if they are suspended from the PAR, including the actions the audit firm or RI must take. Finally, this section explains that the suspension would usually be published.
- 11.2. Respondents were asked whether they considered the process for imposing a suspension to be proportionate and fair and if they agreed with the consequences of a suspension of an audit firm's or RI's registration.

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## Matters arising from consultation responses

- 11.3. Five respondents noted the potential impact on audited entities if an audit firm or RI is suspended when they are close to signing the entity's audit report. While some respondents noted the Regulations allow for an audit report to still be signed while an audit firm or RI is suspended (with the FRC's prior permission), they said there may be reduced confidence in the audit work completed by an audit firm or RI that has been suspended by the FRC.

### The FRC's response

- 11.4. It is the FRC's expectation that suspending an audit firm or RI from the PAR will be rare. Consideration will be given to any impact the suspension will have on an entity that is being audited.
- 11.5. The Regulations allow the FRC to give permission to a suspended audit firm or RI to conclude a specific audit, for example, if the audit report is close to being signed. In these circumstances, the FRC may direct a second review of the audit work prior to the audit report being signed, to safeguard confidence in the audit work.

## 12. Urgent decisions (Regulation, Part 12)

### What the consultation proposed

- 12.1. This section sets out the process for the FRC to make urgent decisions in the public interest. The section also explains the implications for an audit firm or an RI when either Conditions or a suspension are imposed as an urgent decision.
- 12.2. Respondents were asked whether they considered the process for making an urgent decision to be proportionate and fair.

### Matters arising from consultation responses

- 12.3. Three respondents voiced concerns regarding the fairness of the urgent decision process; in particular, the fact that decisions would be implemented without first seeking representations from the audit firm or RI.
- 12.4. One respondent stated:

*"Whilst we agree that there is a need for a process to allow the FRC to issue urgent decisions, and that the process set out in Part 12 of the Regulations is fair and proportionate, we would suggest that such situations should be extremely rare. Again, checks and balances should be in place to ensure the facts and circumstances surrounding any urgent decision are transparent and fair."*

### The FRC's response

- 12.5. Again, it is the expectation that situations requiring the FRC to make an urgent decision will be infrequent.

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- 12.6. Once an urgent decision is made, at the same time as notifying the audit firm or RI of that decision, the FRC will seek representations from the audit firm or RI. The FRC will then review the outcome of the urgent decision once those representations have been received. The internal review and appeals processes in Part 14 of the Regulations can also be applied to urgent decisions (provided the grounds for review are met). Urgent decisions will generally, however, remain in effect while the internal review or appeal is considered, given the high public interest in such decisions.
- 12.7. The FRC is therefore satisfied that sufficient safeguards are in place for where an audit firm or RI is subject to a measure that has been applied as an urgent decision.

## **13. Removal from the PAR (Regulations, Part 13)**

### **What the consultation proposed**

- 13.1. This section sets out the process for audit firms and RIs to request voluntary removal from the PAR. The section also explains that there may be circumstances where a request for voluntary removal is refused by the FRC. Finally, it outlines situations where the FRC may decide to remove an audit firm or RI from the PAR on an involuntary basis, and the requirements that may be placed on an audit firm or RI in the event they are involuntarily removed from the PAR.
- 13.2. Respondents were asked whether they considered the process whereby the FRC may refuse an application for voluntary removal to be proportionate and fair.

### **Matters arising from consultation responses**

- 13.3. Seven respondents said that a request for voluntary removal should always be granted by the FRC, noting that the Regulations provide the ability to publish details of a voluntary removal.

### **The FRC's response**

- 13.4. The FRC maintains there may be circumstances where it is in the public interest for an application for voluntary removal to be refused. These circumstances are, however, likely to be infrequent.
- 13.5. For example, such a situation may arise where an audit firm or RI is attempting to relinquish their registration before a decision can be made to involuntarily remove them from the PAR. In such circumstances, the public interest may require the FRC to use its formal powers of involuntary removal.
- 13.6. The FRC therefore intends to keep the ability to refuse an application for voluntary removal, albeit it expects to use this power only in rare circumstances.
- 13.7. In addition, Part 13 of the Regulations has been updated to make a clearer distinction between voluntary and involuntary removal. The FRC will publish full guidance to provide clarity on voluntary and involuntary removals before 5 December 2022.

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## 14. Internal reviews and appeals (Regulations, Part 14)

### What the consultation proposed

- 14.1. This section sets out the grounds on which an internal review can be requested in respect of certain decisions made under the Regulations. The section also sets out the timeframe for requesting an internal review and the potential outcomes arising from an internal review. Finally, the section sets out the process for making an appeal, to be considered by a PIE Registration Tribunal Panel, if an audit firm or RI wishes to challenge the outcome of an internal review and where the grounds for making such an appeal are met.
- 14.2. Respondents were asked if they thought the grounds for internal review and appeal were sufficiently clear in the Regulations; the extent to which they agreed that the PIE Registration Tribunal Panel was suitably independent; and if they had any comments on how the Appeal Rules would work in practice.

### Matters arising from consultation responses

- 14.3. Three respondents suggested that an internal review, as well as an appeal, should be considered by the PIE Registration Tribunal Panel as the process lacks independence whereby a member of FRC staff carries out the review.
- 14.4. Eight respondents said they were unaware from the consultation documentation of how the PIE Registration Tribunal Panel would be constituted and how it would operate.

### The FRC's response

- 14.5. The FRC believes that executive-led decision-making, with suitable safeguards, represents an appropriate and agile way of making decisions under the Regulations, and this includes decisions pertaining to a request for an internal review. Executive-led decision-making allows for important decisions to be made quickly to protect the public.
- 14.6. The intention is that the FRC's existing Tribunal Panel members, who currently deal with cases brought under the Audit Enforcement Procedure and Accountancy and Actuarial Schemes, would be asked to consider appeals arising from PIE Auditor Registration. Information about the Tribunal Panel can be found on the FRC website:  
<https://www.frc.org.uk/about-the-frc/tribunals>

## 15. Changes to information relevant to the Registration Requirements (Regulations, Part 15)

### What the consultation proposed

- 15.1. This section outlines the requirements for audit firms and RIs to notify the FRC of a Relevant Change affecting PIE Auditor Registration and explains what actions may result from that notification. The section also outlines what should happen in circumstances where an entity being audited comes into PIE scope part-way through the audit.



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15.2. Respondents were asked if the Regulations were sufficiently clear and comprehensive in respect of notifying the FRC of a change in circumstances. Respondents were also asked if the Regulations clearly explain what should happen if an audited entity comes into PIE scope part-way through the audit.

### **Matters arising from consultation responses**

- 15.3. Eight respondents suggested that having five days to notify the FRC of a Relevant Change was too short a timeframe. Others referred to the requirement to notify the FRC of any changes to their PIE portfolio, noting that for the largest audit firms this would require them to make almost daily notifications to the FRC. It was suggested that a monthly or quarterly notification may be more appropriate.
- 15.4. Three of those respondents felt that some of the Relevant Changes were administrative in nature and do not require immediate notification to the FRC.
- 15.5. Five respondents said the FRC should have a procedure whereby it can expedite applications when an entity becomes a PIE with short notice.
- 15.6. Finally, five respondents expressed a wish that all notifications should go through the audit firm's Authorised Contact ('ACs') and there should be no direct communication with the audit firm's RIs.

### **The FRC's response**

- 15.7. The FRC has redrafted some of the provisions found in Part 15 of the Regulations. Specifically, the FRC has:
- Amended the notification period from five working days to ten working days in respect of matters that require immediate notification to the FRC – for example changes that affect details included on the PAR.
  - Amended the notification period for changes to an RI's portfolio of PIEs, now requiring a six monthly update to the FRC.
- 15.8. While the FRC has considered the suggestion for a fast-track application process, the FRC is concerned that expediting applications for PIE Auditor Registration may create an undue risk to the public, as it would not allow for checks to be sufficiently thorough. As such, the FRC does not intend to amend its proposals in relation to approving short-notice applications.
- 15.9. The FRC does, however, intend to process applications promptly. KPIs for processing an application will be published in due course. Nonetheless, the FRC accepts there may be rare occasions where audit work has to cease while an application is being considered.
- 15.10. The FRC intends to direct all communications relating to PIE Auditor Registration matters to the audit firm's designated Principal Authorised Contact, or another designated AC. There may be circumstances where the FRC needs to communicate directly with an RI regarding a

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matter, for example, in relation to a confidential issue, however these circumstances are unlikely to be common.

## **16. Annual Return to the FRC and Registration Reviews (Regulations, Part 16)**

### **What the consultation proposed**

- 16.1. This section outlines the requirements for audit firms to submit an Annual Return to the FRC. The section explains how the FRC will use the information to determine if the audit firm is continuing to meet the registration requirements.
- 16.2. Respondents were asked if the Regulations clearly explain the Annual Return process, and how the information will subsequently be considered by the FRC.

### **Matters arising from consultation responses**

- 16.3. Three respondents suggested the requirement to submit the Annual Return within 30 days was too short. Some of the respondents further noted the Annual Return process should be more aligned to the process currently operated by the RSBs.
- 16.4. Three respondents asked for further clarification of when a Registration Review would take place in relation to the submission of an Annual Return.

### **The FRC's response**

- 16.5. The FRC will aim to align the submission date to that of an Annual Return with the submission of the firm's annual return to its RSB.
- 16.6. The FRC has decided that an audit firm will be notified of the date on which the Registration Review will be commenced. The Regulations have been amended to provide for the Registration Review process.

## **17. General rules (Regulations, Part 17)**

### **What the consultation proposed**

- 17.1. This section describes how the FRC will gather information, which is relevant to the audit firm's or RI's suitability for PIE Auditor Registration. This includes getting information from other sections of the FRC and relevant RSBs. The section also explains how audit firms and RIs are required to supply the FRC with any information the FRC considers necessary to assess suitability for PIE Auditor Registration.
- 17.2. Respondents were asked if there are any additional information sources the FRC should consider accessing when considering an audit firm's or RI's PIE Auditor Registration.

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## Matters arising from consultation responses

17.3. Seven respondents stated that information sharing protocols and consideration of GDPR implications needed to be included in the Regulations or guidance. They also pointed out that the FRC should ensure its IT systems and processes were sufficiently secure to deal with sensitive data.

17.4. A respondent on behalf of one of the RSBs stated:

*"...the RSBs will be expected to be an information source for the FRC in relation to an audit firm's or responsible individual's PIE registration. There is a need for clarity in relation to the rights and protections relevant to this information sharing in the context of data protection legislation..."*

## The FRC's response

17.5. Any new FRC processes for the sharing of data will comply with applicable legal requirements, including the requirements of data protection legislation, such as the UK GDPR. The FRC will publish an updated regulatory privacy notice to cover the PIE Auditor Registration process.

17.6. Information security assessments have been or are being carried out in respect of each part of the process design for PIE Auditor Registration; this includes IT design and policy creation.

## 18. Transitional Regulations (Regulations, Annex 1)

### What the consultation proposed

18.1. Annex 1 of the Regulations sets out the requirements for audit firms to apply for registration during the transitional period. The audit firms should designate the RIs that they wish to be included on the PAR, along with the supporting information, for the FRC's consideration. The Regulations also stipulate which audit firms are eligible to apply for registration during the transitional period.

18.2. Respondents were asked if the Regulations clearly explain the information which existing audit firms must submit during the transitional period.

### Matters arising from consultation responses

18.3. Eight respondents agreed that the requirements for applications in the transitional period were clearly set out in the Transitional Regulations; however, some of those respondents requested further guidance on how audit firms should demonstrate compliance with the registration requirements in their application.

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## The FRC's response

- 18.4. As noted in section 6 above, the FRC is issuing guidance for transitional applications, with the express intention of assisting audit firms that are submitting applications during the transitional period.
- 18.5. Additionally, enhancements have been made to the Transitional Regulations to make this section of the Regulations clearer for applicants.

## 19. Attractiveness of the profession

### Matters arising from consultation responses

- 19.1. While many of the respondents acknowledged the need for the FRC to ensure the competence of those RIs undertaking PIE audits, six respondents suggested that the enhanced requirements may have the impact of making the profession less attractive as a long-term career, reducing the pool and quality of auditors who are prepared to conduct PIE audits which are perceived to be higher risk for the auditor.
- 19.2. Some of those respondents also suggested that PIE Auditor Registration had the effect of creating a two-tier audit profession, with PIE RIs appearing to be a more senior tier of auditor.

### The FRC's response

- 19.3. The FRC does not agree that PIE Auditor Registration diminishes the attractiveness of the profession. Indeed, PIE Auditor Registration allows RIs to demonstrate a high level of skills and experience, and to have those abilities publicly recognised by appearing on the PAR.
- 19.4. The FRC would only expect to use the more serious measures of suspension and removal, and to publish PIE Auditor Registration decisions, in more serious cases. It is anticipated that the PIE Auditor Registration process will enable the FRC to work with audit firms and RIs more closely than it does at present to improve the quality of PIE audit work. Safeguarding the quality of PIE audit work would be expected to increase public confidence in the profession in turn making the profession more attractive as a career.

## 20. Entry to the market

### Matters arising from consultation responses

- 20.1. Of the respondents that commented on the attractiveness to the profession, some also noted that the additional administrative burden, and the need to demonstrate relevant competence and experience, may act as a barrier to entry for small audit firms wishing to enter the PIE market.

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20.2. One respondent said:

*“The FRC’s processes need to allow aspiring firms to enter the PIE market – both in terms of winning new audits and retaining existing audited entities that become PIEs, without an inappropriate bar to entry. We have some concerns that the proposals may not deliver this.”*

## The FRC’s response

- 20.3. The FRC acknowledges that RIs often lead audits which are similar in scope and complexity to PIE audits, but which do not meet the legal definition for a PIE. Nonetheless, the Government has clearly set out that the FRC must focus on ensuring the quality of PIE audits. It is only right therefore that the FRC creates an additional process to assess the competence of those RIs who audit PIEs.
- 20.4. The Government has set a clear mandate for the FRC to drive improvements in audit quality in the PIE audit market. The FRC believes one of the most effective ways to ensure quality is through the direct registration of audit firms and RIs responsible for PIE audit work.
- 20.5. It is accepted that PIE Auditor Registration creates an additional hurdle for audit firms should they wish to enter the PIE audit market. However, we have sought to minimise the administrative burden. The FRC complies with the Regulators’ Code when carrying out its regulatory work. As such, the FRC seeks to be proportionate, accountable, consistent, transparent and targeted in the way that we work and how we regulate.
- 20.6. Separate to the PIE Auditor Registration process, the FRC is considering ways that smaller audit firms can be offered support and advice as they enter the PIE audit market. Nevertheless, the primary focus of the PIE Auditor Registration project is ensuring the high quality of PIE audit work.

## 21. Post-implementation review

### Matters arising from consultation responses

21.1. Four respondents suggested that the FRC should conduct a post-implementation review, with a cost-benefit assessment of the new process. Respondents also suggested the FRC should create some measures by which the impact of the process can be evaluated.

21.2. One respondent stated:

*“[A post-implementation review] would allow for a considered view to be taken of the effectiveness of the new regime, and identification of further improvements in the light of experience of a full annual cycle, based on evidence of costs of compliance and processing times. The degree to which the new regulations may have changed the extent to which smaller firms are willing and able to continue to participate in the PIE audit market could also be assessed.”*

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## The FRC's response

21.3. The FRC agrees that a post-implementation review of the project would be beneficial. Such a review is likely to take place 18-24 months after the project's implementation, to allow the new process sufficient time to embed.

## 22. Decision-makers

### Matters arising from consultation responses

22.1. Two respondents stated that they disagreed with the FRC approach where the majority of PIE Auditor Registration decisions are made by FRC staff, as opposed to an independent committee, as is the case with the RSBs.

### The FRC's response

22.2. The FRC has chosen to adopt an executive-led decision-making process as this provides the regulator with the greatest agility, meaning decisions can be made quickly to protect the public. The FRC has looked at other regulators, both in and out of the financial services sector, and has noted many regulators are now moving away from committee decision-making and using an executive-led system.

22.3. The FRC is satisfied that sufficient safeguards are in place for those subject to decisions under the Regulations. Those safeguards include the ability to request an internal review of, or to appeal, certain decisions as provided for by the Regulations.

## 23. General feedback about the proposals

### What the consultation asked

23.1. The consultation asked a question about the impact that PIE Auditor Registration will have on improving audit quality across the PIE audit market. The consultation also asked if there were any other provisions that may be useful to include in the Regulations.

### Matters arising from the consultation

23.2. One respondent stated:

*"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."*

23.3. A second respondent highlighted the need for the processes to be in place by the go live date:

*"If designed in enough detail, together with effective information sharing with the RSBs, and used constructively as part of the wider quality engagement improvement agenda, the process*

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*should contribute to improving PIE audit quality. However, there is a risk of unnecessary market disruption if the Regulations and Guidance are not drafted in sufficient detail or if systems and processes underpinning the Registration process are not functioning as intended by the go live date.”*

## **The FRC’s response**

23.4. With regards to the FRC’s work to deliver PIE Auditor Registration, FRC Executive Director of Supervision, Sarah Rapson has said:

*“Having direct responsibility for registering and monitoring PIE auditors will allow the FRC to act more quickly and effectively when systemic issues are identified in these audits.*

*This complements the FRC’s increasingly assertive supervisory approach and is a strong addition to our regulatory toolkit.”*

# Appendix A

## List of respondents

	Respondent	Type of Respondent
1	Alex Davies	Individual
2	Comptroller and Auditor General	National Audit Office
3	ClientEarth	Not for profit organisation
4	Association of Chartered Certified Accountants	RSB
5	CPA Australia	Regulator
6	Crowe U.K LLP	Firm – Tier 2
7	Institute of Chartered Accountants in Scotland	RSB
8	BDO LLP	Firm – Tier 1
9	Mazars LLP	Firm – Tier 1
10	The Investment Association	Trade Body
11	Ernst & Young, Chartered Accountants, Ireland	Firm – Other
12	Chartered Accountants Ireland	RSB
13	Ernst & Young LLP	Firm – Tier 1
14	PricewaterhouseCoopers LLP	Firm – Tier 1
15	Deloitte LLP	Firm – Tier 1
16	KPMG LLP	Firm – Tier 1
17	Institute of Chartered Accountants in England and Wales	RSB





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