


HOME » News » 2021

- 2022
 - 2021
 - 2020
 - 2019
 - Newsletter
 - Archived
- [REGISTER FOR NEWS](#) 

Revocation of the recognition of the Institute of Chartered Accountants in England and Wales (ICAEW)

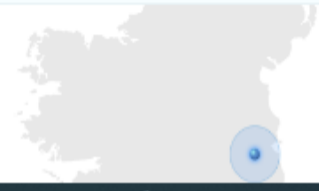
21/07/2021

Pursuant to its powers under section 931(4) of the Companies Act 2014 ('the Act'), the Irish Auditing and Accounting Supervisory Authority ('the Authority') has decided to revoke the recognition of the Institute of Chartered Accountants in England and Wales ('ICAEW') granted under S.930 of the Act with effect from 21 July 2021. This means that ICAEW may no longer authorise individuals or firms as statutory auditors or public auditors in Ireland or undertake any audit related regulatory functions. This decision follows the application by the ICAEW to the Authority for revocation of its recognition.

By virtue of the revocation of its recognition, ICAEW is no longer a prescribed accountancy body under the Act and therefore, no longer comes under the remit of the Authority.



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Home > Regulation > Working > Revocation of ICAEW's Recognised Accountancy Body (RAB) status in Ireland

Revocation of ICAEW's Recognised Accountancy Body (RAB) status in Ireland

ICAEW revoked its Recognised Accountancy Body (RAB) status in Ireland on 21 July 2021.

- > Applying to another RAB
- > Firm eligibility
- > RI eligibility
- > Practical consequences of third-country auditor status
- > Criteria for exemption from the aptitude test
- > CPD Guidelines
- > Background
- > Considerations of revocation by the ICAEW Regulatory Board and the ICAEW Board
- > UK and Irish Audit Regulations

The decision to seek revocation was approved by both the ICAEW Regulatory Board and the ICAEW Board at the



The decision to seek revocation was approved by both the ICAEW Regulatory Board and the ICAEW Board at the end of last year.

This has not been an easy decision to take as ICAEW has been a RAB since 1963, but it is the only sensible course of action for ICAEW now given:

- the diminishing number of ICAEW firms currently on the Irish Audit Register, the difficulty of many of those firms in complying with the new eligibility criteria;
- the divergence of regulatory regimes; and
- the increasing demands on ICAEW from the Irish Audit and Accountancy Supervisory Authority (IAASA) which has created a disproportionate amount of work for ICAEW given the amount of Irish audit work being carried out.

Subject to satisfying all the governance steps involved, it is likely that our RAB status will end by 21 July 2021.

This means that firms currently registered by ICAEW as statutory auditors in Ireland need to be finalising alternative arrangements to:

- Complete any Irish audits in progress before ICAEW's RAB status is revoked.
- Hand any Irish audit clients over to a firm that holds Irish registration with another RAB. This could be for example, an Irish audit firm in your network, or to another, unconnected firm.
- Apply to hold Irish audit registration with another RAB, (which would be effective once ICAEW's RAB status is revoked). Although, as explained below, this route is likely to only be available to firms already connected with the other RAB (for example through existing membership or authorisations).

We have sought to set out below further **background and rationale** for this change below.

Applying to another RAB

If a firm wishes to continue to hold Irish audit registration, it will need to make a full application to another RAB, submitting all necessary application forms and following the RAB's established application processes.

The firm's eligibility for Irish registration, and the eligibility of any proposed Irish responsible individuals (RI) will

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Applying to another RAB

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The firm's eligibility for Irish registration, and the eligibility of any proposed Irish responsible individuals (RI) will be assessed against s1470 and s1473 of the Irish Companies Act 2014.

Firm eligibility

To be eligible for Irish audit registration, a majority of the firms voting rights has to be held by individuals who are 'eligible for approval' as statutory auditors in Ireland (ie, individuals that meet the eligibility criteria to be an Irish RI), or elsewhere in the EU. Also, a majority of members of a firm's management board has to be eligible for approval as an Irish RI.

In order to be 'eligible for approval', all such individuals, as well as holding an audit qualification would need to be able to demonstrate they meet the RAB's criteria for granting Irish RI status (although the individuals do not need to formally apply to become Irish RIs).

RI eligibility

An individual wishing to be an Irish RI, and who is not a statutory auditor elsewhere in the EU, will need to:

- Apply to become a full member of another RAB (s1470(a)) and hold an audit qualification which is considered an appropriate qualification under Irish company law; or
- Apply for Irish RI status as a third-country auditor provided the firm already hold a registration in the UK (s1470(c)) which will necessitate the passing of an aptitude test (s1476), unless the criteria for exemption are met (see below).

The individual will need to ascertain from the RAB which application route is acceptable to the RAB and meet the RAB's requirements in that regard. In addition, each proposed Irish RI will need to submit a completed RI application form to the RAB and provide evidence of Irish audit experience and CPD as required by each RAB's application processes.

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Practical consequences of third-country auditor status

A practical implication of holding Irish audit registration is that this status gives the firm a route to apply for audit registration across Europe.

In particular, any firm registering with another RAB can potentially passport its registration to another EU member state (subject to making an application). While the RAB will become responsible for the oversight of the firm's Irish audits, the RAB will also be responsible for the oversight of any audits by the firm in EU member states. In addition, if the firm audits any public interest entity (PIE) clients (either Irish or EU PIEs) then IAASA, as the national competent authority in Ireland, will be responsible for their oversight.

This poses increased risks for the other RABs and for IAASA, and we expect the RABs will be reluctant to consider any applications for Irish registration via the third-country auditor route.

From our conversations with these RABs and with IAASA, we therefore expect the RABs will be reluctant to consider any applications for Irish registration from firms or individuals not already connected with the RAB (for example through existing membership or authorisations).

Criteria for exemption from the aptitude test

Earlier this year IAASA finalised guidelines on exemption from the aptitude test. The guidelines set out the specific matters a RAB should have regard to in deciding if an applicant has demonstrated sufficient knowledge of the enactments and practice relevant to statutory audits in Ireland.

- An individual who satisfies all of the following:
- Demonstrates sufficient recent experience of undertaking the statutory audit of Irish registered companies;
- Has undertaken recent, Irish relevant CPD; and
- Has a satisfactory quality assurance record,
- may be exempted from the aptitude test!

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The guidelines also state that IAASA expects 'that an individual will have signed the statutory audit opinion of at least 10 Irish entities in the three years immediately prior to the application to qualify for consideration for such an exemption.' Furthermore, IAASA expects the granting of an exemption should only be considered on an exceptional basis and that most applicants would be required to take the aptitude test.

CPD guidelines

Individuals seeking Irish RI status with another RAB should also be mindful of the updated CPD guidelines issued by IAASA earlier this month which set out the detailed requirements regarding how CPD for Irish audit work should be undertaken and recorded. These guidelines take effect from 1 January 2022.

Background

ICAEW has been a regulator of members providing audit services in Ireland since its foundation in 1880 and continued this even after separation of the Irish Republic from the United Kingdom in 1937. In 1963, its historical role was recognised as it was appointed as one of the Recognised Accountancy Bodies under the 1963 Irish Companies Act.

The 1990 Irish Companies Act and the UK equivalent in 1989 implemented the 8th EU Audit Directive, and as the provisions of both pieces of legislation were very similar ICAEW, CAI and ICAS brought out joint audit regulations in 1995 that covered both jurisdictions. The supporting standards for audit accountancy and ethics were at that time still administered by the Accounting Standards Board (ASB) for the United Kingdom and Ireland.

However, during the last 25 years since those regulations were introduced, there has been a gradual divergence in the laws and standards between the two jurisdictions. In 2003, the Financial Reporting Council (FRC) (then the Public Oversight Board) in the UK, and IAASA in Ireland, were brought in as oversight bodies with slightly different approaches to audit oversight. The implementation of the 2006 Audit Directive in Ireland through S.I.200

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Historically, any firm applying for audit registration with ICAEW secured approval for both the UK and Ireland automatically. However, IAASA has become increasingly concerned about the competency of individuals to perform compliant audits in Ireland without a full understanding of the discreet requirements of Irish company and tax law, as the above divergences started to become more pronounced. At the same time, it had become apparent in recent years that the Audit Regulations in meeting Irish obligations risked imposing additional burdens on UK auditors when they had no Irish audits, and this was inconsistent with the Hampton principles on effective regulation under UK law.

After the UK referendum on EU membership in 2016, the Attorney General for Ireland declared in 2017 that UK firms providing audit services into Ireland would no longer sit on the Irish audit register after Brexit. Shortly after this announcement, IAASA asked the RABs, including ICAEW, to advise firms on the steps necessary to recognise potential outcomes from a no-deal Brexit which, given the Attorney General's declaration, meant some firms making contingency provision to move their audits to another firm based in the Republic of Ireland. During the following eighteen months, the number of firms reporting audit clients in the Republic of Ireland dropped from 100 to 50 as firms made plans ahead of the final outcome of the Brexit negotiations.

In recognition of the falling level of Irish audits, we required firms from January 2020 to opt-in for the first time if they wanted to hold Irish audit registration and to make a formal application for the firm (and separate applications for each proposed Irish responsible individual (RI)) demonstrating the competency levels expected by IAASA. As a result of this opt-in process, the number of Irish firms registered by ICAEW dropped from c. 2,700 to fewer than 40.

The completion of Brexit has resulted in changes in eligibility for audit registration in both the UK and Ireland. In the UK, these were enacted through SI177 in January 2019 while the Irish government has yet to make any statutory change. As the position had become complicated, a decision was taken to separate the Audit Regulations for both countries and, in January 2021, new Audit Regulations were published for the UK only. While the Audit Regulations for the Republic of Ireland remain the same as those issued in January 2020, guidance issued by IAASA has indicated that some of the tests for eligibility are more nuanced post Brexit, recently illustrated by our recent guidance to firms that the ownership tests were more limited in their scope. As

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Consideration of revocation by the ICAEW Regulatory Board and the ICAEW Board

The ICAEW Regulatory Board considered during 2020 the increasing issues raised by the divergence of law and standards and third country statutory obligations, including the dwindling number of ICAEW registered firms on the Irish Audit Register and the likelihood of this reducing further. It was also cognisant of the tension caused by changes it wished to make to the ICAEW bye-laws and regulations and the need for all such arrangements to satisfy IAASA despite the limited amount of work falling within the scope of the bye-laws / regulations.

In December 2020, after IAASA indicated it thought ICAEW should consider a possible revocation of its RAB status, the issue was considered by both the ICAEW Regulatory Board and ICAEW Board and a decision was made to confirm ICAEW's agreement to start a process to revoke its RAB status, which will also lead automatically to the revocation of ICAEW's Prescribe Accountancy Body (PAB) status.

UK and Irish Audit Regulations

- > [The January 2020 Regulations apply in respect of Ireland only](#)
- > [UK Audit Regulations 2021](#)