



Financial Reporting Council

# **Audit Firm Scalebox Terms & Conditions**

May 2023

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Registered in England number 2486368. Registered Office:

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## Introduction

1. 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. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. We also represent UK interests in international standard-setting. As the Competent Authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality.
2. The FRC is an improvement regulator. The Audit Firm Scalebox (Scalebox) is designed to assist firms improve their ability to conduct high-quality audits and promote competition and choice in the Public Interest Entity (PIE) audit market, and other audit sectors within the FRC's remit.
3. These terms and conditions apply to all firms that apply to join the Scalebox initiative. By applying to join the Scalebox, you accept these terms and conditions. Firms that do not agree are not eligible to participate in the Scalebox.

## Purpose of this document

4. This document outlines:
  - a) The objectives of the Scalebox and how it will operate.
  - b) The application and selection processes.
  - c) Ongoing obligations on firms that are successful in their application to join the Scalebox.
5. This document also sets out important provisions regarding confidentiality and the circumstances in which the FRC may share information it receives during Scalebox activities.

## Objectives and operation of the Scalebox

6. The Scalebox is a flexible mechanism for the FRC to provide additional input to firms in Tier 2, Tier 3 and those contemplating taking on the statutory audit of a PIE or other audits within the FRC's scope, including major local audits (Tier 4), together the Scalebox firms.
7. The principal objectives of the Scalebox are to:
  - a) Assist firms improve audit quality. This may be achieved through Scalebox activities promoting a better understanding within Scalebox firms of:
    - The high-quality audit standards expected by the FRC.
    - Developing their audit quality management systems to maintain quality as they grow.
    - Designing, implementing and embedding an appropriate audit culture.
  - b) Promote resilience in relevant sectors of the audit market through:

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- Improving Scalebox firms' ability to identify and take action to mitigate risks within the firm which will support their longer-term resilience.
  - Improving quality and capacity in Scalebox firms which will promote greater competition and choice.
- c) Support the FRC's role as an improvement regulator by:
- Providing Scalebox firms with closer and more direct access to the FRC as they enter and grow in sectors of the audit market within the FRC's scope.
  - Enabling Scalebox firms to better navigate the regulatory landscape and understand the FRC's regulatory expectations.
- d) Enable the FRC to better fulfil its regulatory objectives through:
- Increasing the FRC's ability to identify and seek actions from Scalebox firms to address audit quality and resilience risks and issues in a timely manner.
  - Providing the FRC with an improved understanding of Scalebox firms so that the FRC is better able to develop a proportionate regulatory approach.
  - Providing greater insights for the FRC to feed back into its supervision of audit firms and the Recognised Supervisory Bodies (RSBs).
8. The Scalebox will sit within the FRC's Supervision division but will operate separately to the FRC's existing audit supervision and inspection teams. It will be staffed by individuals with relevant supervision and inspection experience (the Scalebox team).
9. The Scalebox team will plan its work taking into account areas where firms are asking for help and areas where we know from our supervision and inspection work, and other sources, that there are quality or other risks and issues.
10. The types of activities that the Scalebox may conduct with a firm include, but are not limited to:
- Reviewing aspects of individual audits, aspects of a firm's internal quality monitoring system (including its audit methodology) or a firm's governance processes.
  - Helping firms understand more about how the FRC regulates firms, including the PIE Auditor Registration process and our Enforcement processes.
11. The Scalebox may conduct work with an individual firm or on a thematic basis across a group of firms.
12. The Scalebox will not:
- Have any involvement in a specific audit prior to it being completed and archived.
  - Provide 'pre-clearance' or expressly approve any aspect of: the audit work conducted by a firm; its audit approach; any aspect of its quality management system; or its eligibility for registration with the FRC as a PIE Auditor. Tier 4 firms will be required to demonstrate

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that they meet the relevant criteria at the point they seek to formally Register with the FRC as a PIE audit firm.

- Prescribe how a firm should develop its quality or risk management systems or how it should respond to feedback provided by the FRC. The FRC's role is to identify areas for improvement and share good practices. It is the firm's responsibility to consider the FRC's feedback and to consider, in a timely manner, what action to take in the context of the firm's business model, its audit portfolio and its quality management procedures.

13. For more information, firms should visit the [Scalebox page](#) of the FRC website.

### **The application and selection process**

14. The Scalebox will operate a fair and transparent application process for the selection of firms to be included in the Scalebox.
15. PIE audit firms that are registered with the FRC and have been placed in Tier 2 and Tier 3 are eligible to apply to the Scalebox. We encourage such firms to consult with their FRC Supervisor prior to making an application.
16. Firms that are not currently PIE auditors may also apply but must explain in their application their reasons for applying, for example, their strategy for entering the PIE audit market.
17. The FRC will assess a firm's suitability for the Scalebox based on the information set out in the firm's application and other information available to the FRC, including the FRC's knowledge and understanding of the firm's audit strategy and quality risks posed by the firm. The FRC will explain to firms not selected, the reasons for the FRC's decision. The FRC's decision will be final.
18. Acceptance into the Scalebox does not establish an obligation on the FRC to conduct with any firm, any of the Scalebox activities. Scalebox activities will be developed with regard to the resources available to the Scalebox team and its assessment of where those resources may be most effectively applied.
19. The FRC reserves the right to request updated application information from a firm and to deselect a firm from participation in the Scalebox at the FRC's sole discretion.
20. A firm may withdraw from the Scalebox at any time, at the firm's discretion, by giving written notice to the FRC.

### **Firms' obligations**

21. Firms that are successful in their application to join the Scalebox must engage with the Scalebox team in an open, honest, transparent, cooperative and timely manner.

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22. Successful applicants must provide information to the FRC that is complete and accurate. This includes information about the firm's audit strategy and its intention to participate in the PIE audit market or in other audit areas within the FRC's scope.
23. During the course of Scalebox activities, firms must also ensure that any information provided to the Scalebox is done so lawfully. Particular attention must be paid to:
- Confidentiality obligations.
  - Data protection legislation.
  - Legal professional privilege (LPP).

## **Confidentiality**

24. As part of the Scalebox activities, a firm may receive confidential information from the FRC. Confidential information means all information, written or oral (however recorded), provided by the FRC to firms and which (i) is known by the firm to be confidential; (ii) is marked as or stated to be confidential; or (iii) ought reasonably to be considered by the firm to be confidential.
25. A firm may receive confidential information through participation in the Scalebox. A firm must exercise due care to protect such confidential information or prevent the unauthorised disclosure thereof, and must not, without the FRCs prior written consent, during the firm's involvement in the Scalebox or at any time thereafter:
- i. Disclose such confidential information to any third party (other than in the proper course of the firm's participation in the Scalebox).
  - ii. Use such confidential information for the firm's own benefit, the benefit of any third party, or for purposes other than those of the FRC.

This restriction does not apply to any information that is or comes in the public domain other than through the firm's unauthorised disclosure.

26. Firms are not restricted from disclosing to any third party or publicly that they are participating in the Scalebox. The explicit consent of the FRC must be sought for any more detailed disclosures.

## **Information sharing**

27. The Scalebox is intended to be a safe space for firms to share information with and obtain input from the FRC. The Scalebox will operate on the basis of a rebuttable presumption that information gathered by the Scalebox team will not be disclosed outside the Scalebox team, either within or outside the FRC, without the firm's consent or unless the FRC is required by law to do so.

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28. However, this presumption may be rebutted where disclosure:

- a) Is deemed by the FRC to be in the public interest, for example where serious integrity issues or audit deficiencies are identified and need to be considered for enforcement or disciplinary action.
- b) Is to facilitate co-ordination with regulatory activities being undertaken by the FRC or a firm's RSB and does not include the outcome of Scalebox activities, for example to avoid both the Scalebox team and an RSB reviewing the same audit.
- c) Comprises only appropriately anonymized information (except that the FRC may disclose the identities of firms participating in the Scalebox).

29. Persons to which disclosure may be made under 28 a) above will be limited to:

- a) The FRC's PIE Auditor Registration team and/or an RSB's Registration Committee: for example, if issues identified are considered to meet the principles in the context of a firm or an RI's eligibility to be registered.
- b) The FRC's Case Examiner or an RSB's disciplinary team: for example, if issues are identified and considered to meet the principles in the context of taking action to address deficiencies in an individual audit (in relation to the ISAs or the Ethical Standard) or breaches of other requirements such as an RSB's Code of Ethics<sup>1</sup>.
- c) Other persons specified or described in Parts 1 and 2, Schedule 11A Companies Act 2006 in the context of matters falling within their regulatory or other remit.

30. Disclosure decisions will be made with regard to the [General principles for considering the public interest in our work](#), published by the FRC in November 2022.

31. The FRC will not seek the consent of a firm before making a disclosure, but a firm will be advised when a disclosure has been made (unless it would be unlawful for the FRC to do so).

32. Once a disclosure has been made, the information disclosed will be subject to the normal processes operated by the party to whom the disclosure has been made.

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<sup>1</sup> The FRC's expectation is that consideration of Enforcement action in relation to a specific audit would fall to: the FRC in relation to a PIE or other audit within the FRC's scope; or the firm's RSB for non-FRC scope audits. However, the FRC may consider whether to reclaim from the RSB any matter involving a non-FRC scope audit.

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## **Exemption from liability**

33. By applying to participate in the Scalebox, firms acknowledge that the FRC has an exemption from liability set out in s18A of the Companies (Audit, Investigations and Community Enterprise) Act 2004 in relation to its public oversight of statutory auditors' activities. For the avoidance of doubt, the FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of a firm's participation in the Scalebox (or otherwise from using this document or arising from any omission from it).





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