



Financial Reporting Council

# The Financial Reporting Council's report on its oversight responsibilities during 2021/22



November 2022



**Financial Reporting Council Limited**

# **The Financial Reporting Council's report on its oversight responsibilities during 2021/22**

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Any enquiries regarding this publication should be sent to us at:

The Financial Reporting Council Limited  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

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# 1. Executive Summary

## Conclusions

This is the annual report from the Financial Reporting Council (FRC) to the Secretary of State for Business, Energy, and Industrial Strategy (BEIS) on how the FRC has discharged its statutory and non-statutory oversight (of the professional bodies) responsibilities in 2021/22. The report describes the key matters that arose from the FRC's oversight activities. It also updates on the FRC's work to assess third country audit arrangements and on progressing Equivalence and Adequacy<sup>1</sup> assessments and Mutual Recognition Agreements (MRAs).

## Oversight of the Professional Bodies

Based on our oversight in 2021/22, our principal conclusions are as follows:

- The Recognised Supervisory Bodies (RSBs) are complying sufficiently with the terms and conditions of the [Delegation Agreements](#)<sup>2</sup>.
- The RSBs and Recognised Qualifying Bodies (RQBs) continue to meet the requirements of the recognition criteria of [Schedule 10](#)<sup>3</sup> and [Schedule 11](#)<sup>4</sup> of the Companies Act 2006 (the Act).
- We are satisfied that the RQBs meet the requirements of the Act in approving and monitoring Training Offices.

The professional bodies (RSBs and RQBs) continued to face significant challenges in delivering their regulatory activities due to the Covid-19 pandemic. The bodies have adapted their processes to fulfil their regulatory responsibilities by replacing face-to-face visits and manual processes with online remote working. Remote learning and invigilation have been widely used to allow education and examinations to continue.

During 2020 the Covid-19 pandemic and the associated restrictions meant that ACCA (Association of Chartered Certified Accountants), ICAI (Chartered Accountants Ireland) and ICAEW (Institute of Chartered Accountants in England and Wales) were unable to complete their monitoring of all UK audit registered firms within the required six-year timescale<sup>5</sup>. However, the backlog from 2020 has been cleared and only a small number of visits were missed in 2021. In all cases this was due to specific difficulties at the audit firm rather than resourcing constraints at the RSBs.

1 Equivalence is granted when the audit oversight, monitoring and disciplinary and enforcement regime of a third country is deemed to be comparable to that of the UK. Adequacy is granted when the data protection and personal data policies and procedures of a competent authority are considered to be comparable to those of the UK.

2 Appendix 2 contains a Glossary of Legislation and Delegation Agreements referred to in this report. [Glossary Reference 1.1](#)

3 [Glossary Reference 1.2](#)

4 [Glossary Reference 1.3](#)

5 While ICAS and ICAI measure the six-yearly cycle from the previous visit commencement date, ICAEW measures this period from the end of the month in which the previous visit commenced and ACCA measures this period from the date of the previous inspection closing meeting.

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## **Third country auditors**

We registered 42 Third Country Auditors this year.

## **Equivalence and Adequacy**

The FRC has been commissioned by BEIS to undertake two Equivalence assessments and one Adequacy assessment per year. We completed Equivalence and Adequacy assessments of the US and are currently assessing the Equivalence of the Cayman Islands and Bermuda.

## **Mutual Recognition of Professional Qualifications**

Our work includes agreeing Mutual Recognition Agreements with third countries covering the recognition of audit qualifications. Having met over 30 countries, we are now having more detailed discussions with Luxembourg, Switzerland, South Africa, New Zealand, and Australia as these countries have indicated most willingness and interest.

## **Oversight of statutory audit: RSBs and RQB**

Oversight of statutory audit consists of 4 regulatory pillars – (i) the RSB’s monitoring of non-PIE auditors and inspection of their audit files; (ii) the RSB’s registration of statutory auditors and firms; (iii) the RSB’s approach to enforcement; and (iv) the RSB’s approach to Continuing Professional Development.

We also oversee the quality of the audit qualifications delivered by the RQB.

## **Oversight of audit quality monitoring**

Two years ago, the FRC required ICAEW to implement a revised risk-based approach to selecting files for audit quality monitoring at the seven largest firms. The approach should be top-down, in that each time a large firm is visited, the file selection should be made from the whole firm’s audit portfolio list, reflecting the risks to audit quality and to the public interest. Last year ICAEW developed its proposed approach, which was approved by the FRC. This approach was piloted in the final quarter of 2021 and the precise methodology evolved during this pilot exercise. Our future oversight will include an assessment of the ICAEW’s updated processes.

Our oversight of audit quality monitoring by ACCA in 2020 found that improvements were required in the documentation of evidence by Senior Compliance Officers (SCOs) responsible for audit quality monitoring reviews. We required that ACCA create guidance to describe how SCOs should document their reviews. This requirement has remained open whilst ACCA works to draft, issue, and embed further guidance to SCOs. We have offered to support ACCA in the development of the required guidance.

Our oversight of audit quality monitoring by ICAI this year has found that improvements were required in several areas relating to the application of auditing standards, including challenging the sufficiency of professional scepticism; the standard and extent of documentation on audit monitoring files; and the effectiveness of internal controls over the quality of conclusions drawn



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from audit monitoring reviews. ICAI have acknowledged our findings and developed actions to address them.

## **Oversight of registration of statutory auditors and statutory audit firms**

Our oversight of audit registration continues to include a recommendation to ACCA to look at ways of streamlining and expediting the process for its registration decisions. In addition, we recommended to ACCA that internal decision-making referrals are tracked to avoid undue delays being incurred.

We also continue to recommend that ICAI provides IT training to support its staff in carrying out regulatory tasks and invests in an appropriate IT solution to integrate registration documentation.

We made recommendations to ICAEW to improve the decision-making processes of its Registration Committee and to introduce a performance review process for its committee members.

## **Oversight of Enforcement**

Overall, each RSB continues to incorporate effective processes to ensure that the conduct of investigations, including the imposition of sanctions against members, are consistent, appropriate, and timely. Following our oversight work this year we have closed all open requirements and recommendations at the RSBs, except for one at ICAEW and one at ICAI. We previously recommended that ICAEW document its key processes and procedures in relation to its enforcement work. To satisfy this recommendation ICAEW is developing procedural documentation for use by its enforcement staff, and we will review the implementation of this in 2022/23. We previously recommended ICAI consider the functions of the Case Management System (CMS) and hard copy files. ICAI should ensure all relevant documentation is maintained and accurate on the systems. To satisfy this recommendation ICAI are implementing a new CMS, the effectiveness of which will be reviewed in 2022/23.

## **Oversight of Continuing Professional Development**

The FRC has delegated the oversight of CPD in its entirety to the RSBs. We carry out annual oversight visits to ensure the work conducted by the RSBs is done in accordance with the conditions of the delegation agreement. Our oversight of the RSBs' processes for Continuing Professional Development (CPD) has highlighted some areas that require improvement.

Following our deep dive review in 2020/21 ICAEW has commenced a restructuring of its CPD monitoring programme which is currently being implemented. CAI is also embarking on a new CPD framework in 2022 as it implements the Irish Auditing and Accounting Supervisory Authority's (IAASA) CPD guidelines. The new framework which ICAI develops will also cover CPD of UK statutory auditors. We will conduct a review of the bodies' new procedures and sample test the work carried out by ICAEW and ICAI in 2022/23.

During the 2020/21 visit POT's CPD team identified a potential gap in the monitoring of non-PIE auditors at PIE audit firms. Although the FRC is responsible for firmwide procedures at PIE audit firms it does not necessarily, nor is it required to, test explicitly the CPD compliance of non-PIE auditors at the PIE audit firms where it reviews the firmwide procedures. To rectify the gap created



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ICAEW and Institute of Chartered Accountants of Scotland (ICAS) have put in place procedures to ensure that in 2022 CPD compliance for all groups of auditors will recommence, including all statutory auditors at audit firms that audit PIEs.

## Oversight of RQBs

Our oversight of the RQBs this year focussed on their processes for awarding exemptions and overseeing practical training given COVID restrictions, and on the processes for marking examinations.

Our oversight and monitoring of RQBs did not identify any systemic issues that affected their compliance with the professional qualification requirements under Schedule 11.

## Oversight of local audit

ICAS surrendered its RSB status for local audit on 31 December 2020. Since then, ICAEW has been the only RSB for firms registering for local audit.

We are content with how ICAEW has fulfilled its responsibility for local audit regulation. Two recommendations made to the ICAEW last year remain open to enable sufficient time for ICAEW to demonstrate that changes have been embedded into their ongoing processes.

We have assured ourselves of the Chartered Institute of Public Finance and Accountancy's (CIPFA) continued delivery of RQB responsibilities in relation to local audit by reviewing its response to the Covid-19 pandemic and considering the effectiveness of its governance arrangements.

During the year we undertook a public consultation on the FRC's Guidance to the RSBs on the recognition of Key Audit Partners. The feedback statement and revised guidance were published in June 2022.

## Oversight of the Institute and Faculty of Actuaries (IFoA)

Based on the oversight activities we undertook in 2021 we found no evidence to indicate that IFoA's current regulatory framework was not effectively implemented.

Over 2021 IFoA reviewed aspects of its regulatory framework to ensure it is fit for purpose and operating in the public interest. IFoA concluded an in-depth review of its Disciplinary Scheme which will include addressing open prior year recommendations made by FRC. In addition, IFoA proposes changing the definition of misconduct under its disciplinary scheme.

In May 2022, the Government published its Response<sup>6</sup> to the white paper on Restoring Trust in Audit and Corporate Governance.

In light of this, the IFoA have acknowledged they will need to consider whether any further changes are required to the IFoA's disciplinary framework once legislation has been drafted. This will ensure

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<sup>6</sup> [Government response Restoring Trust in Audit and Corporate Governance](#)

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compatibility with ARGA's regime once ARGA is effected. We look forward to engaging with the IFoA on this matter to enable a smooth transition to ARGA's regime.

IFoA published its updated Practising Certificate Scheme in January 2022. FRC raised a concern that changes to the scheme could weaken the overall rigour of the scheme. IFoA agreed to incorporate changes suggested by the FRC to address this concern.

We were content that proposals by the IFoA to amend its byelaws in respect of honorary membership and retirement from Council would not harm the public interest.

Through the Government Response to the consultation on reform, the Government has confirmed that ARGA's oversight of the IFoA will be brought onto a statutory basis. The FRC will be engaging in activities to facilitate the transition from the current voluntary oversight arrangement to the new statutory regime.

## **Oversight of accountancy**

Our current work remains focused only on complaints handling related to Chartered Accountancy bodies. None of the complaints reviewed raised issues of substantive mishandling and no recommendations for improvements were made to the bodies in relation to these complaints. The remaining matters either fell outside the FRC's complaints handling full review remit, or the complainant had not first exhausted the professional accountancy body's or actuarial body's complaints procedure.

In May 2022 the Government confirmed its intention to extend the remit of the proposed statutory accountancy oversight regime to include all relevant professional bodies, whose members are required to hold professional-level accountancy qualifications equivalent to a level 6 qualification or above. This scope is broader than chartered accountancy bodies but excludes bodies whose members hold specialist qualifications, such as tax. The extended regime would involve ARGA monitoring and reviewing the regulation of the bodies' members; and a power for the regulator to require the bodies to take specific actions where significant public interest concerns are identified.

## **Oversight of governance arrangements**

In 2021/22 we observed Boards and Committees focusing on those most relevant to each RSB's and RQB's responsibilities for regulation of auditors and followed up on previous recommendations. We found no significant shortcomings in the openness of bodies' governance arrangements and governance activity. All had taken steps towards addressing prior year recommendations and we will follow up on the remaining recommendations in 2022.

In 2021 IFoA's newly formed Regulatory Board took responsibility for the oversight and interrogation of all IFoA's regulatory activities, including the public interest aspects of all IFoA's qualifications and admissions framework. We sought evidence that the new Regulatory Board had fulfilled its remit over 2021. We were satisfied that oversight of the disciplinary scheme continued to be effective.

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## **Review of activities to combat climate change**

All the professional bodies we oversee have recognised the importance of climate change within their strategy. Most have made available significant educational resources to support their members, however all the bodies have some way to go to embedding climate change and sustainability related considerations into their regulatory frameworks. The FRC expects the professional bodies to have identified the risks associated with climate change for financial reporting and auditing and to be taking mitigating actions through their education and qualifications, and through their regulatory responsibilities.

## **Regulation of Third Country Auditors (TCAs)**

As at March 2022, 135 registered TCAs were subject to annual review and monitoring. The EU Exit Transition Period ended on 31 December 2020. A firm from any country outside the UK that audits companies listed on a regulated market in the UK must now register as a TCA. Since the end of the Transition Period, we have registered 42 new applications from firms in the European Economic Area (EEA) and have 2 applications under consideration.

## **Equivalence and Adequacy**

The FRC has been commissioned by BEIS to undertake two Equivalence assessments and one Adequacy assessment per year. We completed Equivalence and Adequacy assessments of the US and are currently assessing the Equivalence of the Cayman Islands and Bermuda.

## **Mutual Recognition of Professional Qualifications**

We met our counterparts and other relevant bodies in over 30 EU and non-EU countries. We have now narrowed down our priority countries to those where there is a clear interest in a mutual recognition agreement with the UK and the potential for negotiations to commence in the short term.

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## 2. Oversight of Statutory Audit: Recognised Supervisory Bodies (RSBs) and Recognised Qualifying Bodies (RQBs)

### RSB Performance against Key Performance Indicators (KPIs) for annual review activity and audit quality monitoring

The RSBs have reported on three KPIs, two on annual review activity and one on audit quality. Appendix 3, Condition 3 of the Delegation Agreement states: 'The RSB shall agree KPIs with the FRC which focus on the improvement of audit quality. When targets are not met the RSB may be required to conduct a root cause analysis'.

The bodies reported their performance against the KPIs as follows:

**KPI:** 100% of Registered Auditors subject to an accelerated audit monitoring visit ordered by the relevant RSB Committee receive that visit within the timeframe specified by the relevant RSB Committee.

#### Performance reported by the RSBs

<b>ACCA</b>	Met (apart from firms that could not accommodate remote visits within the timeframe due to the Covid-19 pandemic).
<b>ICAEW</b>	Met (apart from firms that could not accommodate remote visits within the timeframe due to the Covid-19 pandemic).
<b>ICAS</b>	Met
<b>ICAI</b>	Met (apart from firms that could not accommodate remote visits within the timeframe due to the Covid-19 pandemic).

**KPI:** In cases where the audit monitoring visit report is submitted to the relevant RSB Committee for a decision, 100% of reports are issued by the registering RSB to Registered Auditors within 180 days from the date the audit monitoring visit is concluded.

### Performance reported by the RSBs

<b>ACCA</b>	ACCA confirmed that this KPI was not met. The reasons for delays included matters that were within ACCA's control (e.g., resourcing) but also outside its control (e.g., illness and Covid-19 related matters which impacted on hearings being delayed). We accept that it has been a difficult year for all the RSBs and that there were certain factors outside ACCA's control which resulted in this KPI not being met. ACCA has informed us that additional resource is now in place to monitor KPIs going forwards and process changes are being implemented with the Hearings team to ensure this KPI is met in future years.
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<b>ICAEW</b>	Met
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<b>ICAS</b>	Met
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<b>ICAI</b>	Met
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**KPI:** 75% of completed audit file reviews should not require more than limited improvements. Where completed audit file reviews by the registering RSB on a registered auditor require more than limited improvements, the RSB will apply guidance agreed with the FRC to determine whether a root cause analysis should be conducted by the firm.

### Performance reported by the RSBs

<b>ACCA</b>	Met
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<b>ICAEW</b>	Met
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<b>ICAS</b>	Met
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<b>ICAI</b>	Met
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## Key findings from the oversight and monitoring of RSBs

The findings in relation to delegated regulatory tasks are summarised below.

### Registration of Statutory Auditors and Statutory Audit Firms<sup>7</sup>

The lockdown restrictions imposed by the Government meant that, for the most part, we had to conduct our review of the RSBs' registration processes remotely. Consistent with previous visits, we sent an information request list to each RSB setting out all the information required for our review. The RSBs were able to provide files and other information requested to assist our review through cloud-based solutions. This included:

- information on processes and governance;
- a sample of files for a variety of outcomes relevant to initial and ongoing registration of statutory audit firms and individuals registered to sign audit reports; and
- an overview of the RSB's progress against previous years' requirements and recommendations.

We did not identify any systemic issues that raise concerns about the compliance of the RSBs with the conditions applying to registration under the Delegation Agreements.

A summary of our key findings and areas for improvement in relation to registration, which apply to ICAEW, ACCA and ICAI, are as follows:

RSB	Findings and Recommendations
<b>ACCA</b>	<p>Whilst we commend its robust registration process, we recommend that ACCA considers practical changes to enable a quicker process without significantly reducing the rigour of the overall assessment. We are content with the process reviews planned by ACCA and will assess ACCA's actions that arise as a result.</p> <p>We raised a further recommendation in 2021 that internal decision-making referrals are tracked to avoid undue delays being incurred.</p>
<b>ICAI</b>	<p>To maintain its registration function, ICAI built a new internal process using Microsoft SharePoint to store and share application documents. At the date of our review, not all managers had received the required training. This meant that some functionality was not available to them, such as access to updated checklists. We recommend that ICAI provides tailored IT training to all team members who work on regulatory tasks</p>

<sup>7</sup> The Delegation Agreement states that the RSB will comply with the Conditions set out in Appendix 1 of the Delegation Agreement: *Registration of Statutory Auditors and Statutory Audit Firms Conditions*  
<https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements>.

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that require SharePoint so that they can carry out their roles unencumbered.

In addition, we recommend that ICAI invests in an appropriate IT solution to integrate registration documentation.

## ICAEW

Whilst we do not have concerns about its decision making, we have made recommendations that the Audit Registration Committee improves on the consistency of its approach to voting on matters under consideration and reviewing the performance of its members. We are pleased that ICAEW has been proactive in acknowledging the need to implement these improvements.

## Register of statutory auditors (the register)

Under section 2.1(b) of the Delegation Agreements, the RSBs are collectively responsible for keeping the register and making it available for inspection. ICAS has hosted the register since 2007.

It was identified that the current register required updating for functional and security reasons and ICAS has been working for the last 18 months on developing an updated platform.

ICAEW has agreed to assume the hosting of the newly developed register and we will proactively support a smooth and timely transition of hosting arrangements between it and ICAS to ensure continued compliance with the requirements of the Delegation Agreements.

## Audit quality monitoring<sup>8</sup>

We continued to shadow the audit monitoring visits carried out by the RSBs remotely and in person, responsive to the prevailing Government coronavirus guidance, to assess how they discharge their quality monitoring function. We carried out an in-depth review of the RSBs' processes, including planning, fieldwork, reporting and finalisation. Our review included attendance at key meetings remotely to observe interactions between the RSBs and the audit engagement teams. This allowed RSB staff to demonstrate to us how they respond to concerns on a real-time basis.

During the Covid-19 pandemic and the unprecedented lockdown restrictions, the RSBs have demonstrated resilience and adaptability to fulfil the Conditions of Delegation and the delegated tasks. Their measures have included replacing face to face visits and manual processes with online remote working. However, the RSBs' monitoring of audit quality has inevitably taken more time. As a result, in 2020, ACCA, ICAI and ICAEW reported that they were unable to complete their

<sup>8</sup> The Delegation Agreement states that the RSB will comply with the Conditions set out in Appendix 3 of the Delegation Agreement: *Audit Monitoring Conditions* <https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements>.



monitoring of all UK audit registered firms within the required six-year timescale<sup>9/ 10</sup>. Throughout 2021 we have monitored the RSBs' efforts to reduce the backlog. At the end of 2021 all 2020 required visits had been completed. At ACCA, ICAEW and ICAI there were a very small number of audit visits which failed to meet the statutory six-year timescale. In all cases this was due to specific difficulties at the audit firm rather than resourcing constraints at the RSBs.

Our other key findings, recommendations and requirements for improvement are summarised below. We have agreed action plans with each RSB to ensure that our requirements and recommendations are implemented on a timely basis.

RSB	Findings, Requirements and Recommendations
<b>ACCA</b>	<p>Our oversight identified that ACCA is not providing sufficient documentation to explain the judgements made for areas of an audit that are selected for review.</p> <p>Last year we required ACCA to challenge auditors more on identified deficiencies to promote higher quality audits. We also observed that, whilst Senior Compliance Officers (SCOs) document conclusions, there is insufficient documentation of the work performed. This requirement has remained open whilst ACCA worked to draft, issue, and embed further guidance to SCOs.</p> <p>Additionally, our oversight last year led to a requirement to put a policy in place for the handling of data by ACCA's Audit Monitoring Committee members. ACCA have recently implemented a new documentation sharing tool. Our future oversight will include a review of its effectiveness.</p>
<b>ICAEW</b>	<p>Two years ago, the FRC required ICAEW to implement a revised risk-based approach to selecting files for audit quality monitoring at the seven largest firms. The approach should be top-down, in that each time a large firm is visited, the file selection should be made from the whole firm's audit portfolio list, reflecting the risks to audit quality. ICAEW developed its proposed approach which is also aimed at the risks to the public interest, including where there could be broader market and social impacts from an inadequate audit. This approach has been piloted in the final quarter of 2021 and the precise methodology</p>

9 This is required by Condition 5 of Appendix 3 of the Delegation Agreement to meet the provisions of Regulation (EU) No 537/2014 Article 26 paragraph 2.

10 While ICAS and ICAI measure the six-yearly cycle from the previous visit commencement date, ICAEW measures this period from the end of the month in which the previous visit commenced and ACCA measures this period from the date of the previous inspection closing meeting.

has evolved during this pilot exercise. Our future oversight will include an assessment of the ICAEW's updated processes.

Our oversight last year also led to requirements for changes to ICAEW's sampling processes. ICAEW has revised its procedures and now on an annual basis shares proposed sample sizes with FRC; discussing additional risk factors to be applied to specific large firms. We are therefore satisfied that the requirement has been met.

## ICAI

Our oversight of audit quality monitoring by ICAI this year has found that improvements were required in several areas stemming from one audit where the FRC disagreed with the grade awarded by ICAI to the firm.

The FRC has required ICAI to make improvements in relation to the application of auditing standards, including challenging the sufficiency of professional scepticism; the standard and extent of documentation on audit monitoring files; and the effectiveness of the internal controls over the quality of conclusions drawn from audit monitoring reviews.

## Monitoring of Enforcement<sup>11</sup>

We continued to assess the RSBs' processes and procedures across all stages of their enforcement process, from complaints reporting through to sanctions. We based this on samples of current and closed cases. We also followed up on the RSB's progress on open cases that we had reviewed in the previous year.

Our enforcement monitoring inspections did not identify any systemic issues that raise concerns about the compliance of the RSBs with the Enforcement Conditions under the [Delegation Agreement](#).

A summary covering our findings and key areas for improvement in relation to enforcement, which apply to ICAI, ICAEW and ICAS, is below. We have agreed action plans to ensure that our requirements and recommendations are implemented on a timely basis.

RSB	Findings, Requirements and Recommendations
ICAI	In 2019/20 we recommended that ICAI ensures that it progresses cases with greater consistency. Accordingly, ICAI incorporated the FRC's

<sup>11</sup> The Delegation Agreement states that the RSB will comply with the Conditions set out in Appendix 4 of the Delegation Agreement: *Enforcement Conditions* <https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements>

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recommended changes to its draft Case Handling Guidelines. Following our review this year we are satisfied that ICAI is handling enforcement cases consistently and evidences appropriate referral of intelligence between relevant ICAI departments.

In 2017/18 we recommended ICAI consider the respective functions of the Case Management System (CMS) and hard copy files. We further recommended ICAI put in place process improvements to ensure all relevant documentation is maintained on files and the details on the CMS are accurate. ICAI are in the process of implementing its new CMS to resolve the concerns. The effectiveness of the system and its KPI reporting will be reviewed in 2022/23.

## **ICAEW**

In 2019/20 we recommended that ICAEW document its key processes and procedures in relation to its enforcement work. This is necessary to mitigate the risk of loss of knowledge through future unanticipated events, such as when key personnel leave the team. In 2020/21 we reviewed process documentation provided by ICAEW (alongside its relevant Byelaws and Regulations) but did not consider that the documentation provided adequately documented end to end processes; nor did it provide guidance on the general process or key steps the team should follow when making and documenting key judgements.

ICAEW is developing procedural documentation for use by its enforcement staff, which will support revised Byelaws and Regulations. As part of our oversight during 2022/23 we will assess whether the procedural documents meet the need identified in our recommendation.

## **ICAS**

In 2019/20 we required ICAS to make some changes to its investigative process to ensure the maximum level of independence in its decision making, both at an executive and committee level. Following our review this year we are satisfied that relevant ICAS meetings are led by the appointed Chair, and that decisions regarding the appointment of sub-committee members by the Chair are demonstrably independent.

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## Continuing Professional Development (CPD)<sup>12</sup>

This year we followed up on the findings from the 2020/21 'deep dive' review of RSBs' procedures for regulating CPD. All RSBs assess compliance with CPD regulations as part of their audit quality monitoring reviews.

We are pleased that that the RSBs, whose registered auditors include firms that audit PIEs, have changed their procedures to ensure their monitoring of CPD compliance covers all statutory auditors in both non-PIE and PIE audit firms. Although the FRC is responsible for firmwide procedures at PIE audit firms, the FRC has delegated the oversight of CPD in its entirety to the RSBs. We carry out annual oversight visits to ensure the work conducted by the RSBs is done in accordance with the conditions of the delegation agreement. If the RSBs wish to rely on the work carried out by the FRC they must ensure that the FRC's monitoring is sufficient to cover the RSBs' responsibilities for both PIE and non-PIE auditors.

Our other key findings, recommendations, and requirements for improvement, are summarised below.

RSB	Findings, Requirements and Recommendations
<b>ICAI</b>	We required ICAI to use a targeted risk-based sample selection approach for monitoring CPD activity, to significantly increase the number of UK auditors whose CPD is reviewed.
<b>ICAEW</b>	Last year we required ICAEW to make changes to its CPD processes to ensure it has an effective procedure for monitoring CPD. Following our review ICAEW has commenced implementing a new CPD programme which will change its systems and processes for monitoring CPD compliance from 2022 onwards.
<b>ACCA</b>	<p>We recommended that ACCA should implement a formal process for removing ACCA PCAQ (Practising Certificate &amp; Audit Qualification) holders that fail to comply with its CPD requirements. The process of removal should be properly documented in a procedure note to establish the necessary actions ACCA should follow so that a consistent and fair approach is applied for each removal.</p> <p>We also recommended that ACCA provides updated training to its CPD review team to allow them to challenge auditors and promote higher</p>

<sup>12</sup> The Delegation Agreement states that the RSB will comply with the Conditions set out in Appendix 2 of the Delegation Agreement: *Continuing Professional Development Conditions* <https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements>.

quality constructive feedback. Such constructive feedback is important to maintain professional competence of all PCAQ holders.

## Key findings from oversight and monitoring of RQBs

Social distancing requirements and other restrictions in place during the Covid-19 pandemic have continued through 2021/2022. The RQBs have continued to utilise remote invigilation of examinations to offer students choice and flexibility when sitting exams, however, the use of examination centres was also available. RQBs have also utilised remote working options in their oversight of practical training activities.

Some students sitting exams under remote invigilation have continued to suffer disruption, for example from poor internet connections, software problems or other interruptions. The RQBs provided help to these students to resolve issues during exams and gave additional consideration at the time of marking to any students who submitted verifiable evidence of IT problems that had hindered their exam performance.

We concluded that the RQBs took appropriate steps to deal fairly with any issues that arose and have maintained the security of the exams by minimising any opportunities for cheating. Overall, we consider that the students have been well supported.

Marking of examinations is one aspect which contributes to the standard of the qualification. There is also an expectation that students should be treated fairly. We considered whether the marking process, in particular where judgement is being used, resulted in an accurate reflection of the students' performance and that the markers were marking consistently.

Social distancing requirements necessitated the bodies to amend their policies to ensure they could continue to award exemptions for previous learning and to monitor the practical training provided by audit firms.

Our oversight and monitoring of RQBs did not identify any systemic issues that affected their compliance with the professional qualification requirements under [Schedule 11 of the Act](#).

We have summarised the recommendations below.

RQB	Findings and Recommendations
ICAS	Although ICAS has suitable policies and procedures for assessing exemption applications and practical training experience, ICAS should formally document these procedures.
ICAEW	It was noted during our oversight work at ICAEW that there is a backlog in oversight visits to review approved training employers. 727 visits

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remained to be completed at the time of FRC's review. We were concerned that, if left unattended, this backlog would have the potential to limit ICAEW's ability to assure itself that students are getting a good training experience.

In discussions with ICAEW we asked how else they gain assurances that the approved training employers are delivering a good training experience. It is noted that ICAEW receives feedback on the training experience of the students by a variety of means including the Business Development team, the students themselves and other departments within ICAEW.

ICAEW has provided FRC with a plan to complete all outstanding visits within three years using a risk-based approach to prioritise the visits where employers have the ability to train students for the audit qualification. The plan shows visits across the period alongside the additional resources required. FRC believes ICAEW's plan is a credible approach to address the backlog, assuming successful recruitment of resources. FRC will review progress against the plan and monitor the reduction in the backlog.

#### **AIA**

AIA should amend its procedures to ensure markers use the functionality within the marking software.

In 2019 Sir Donald Brydon published his Independent Review into the Quality and Effectiveness of Audit. The report highlighted the need to make improvements to auditor qualifications, skills, and training as it relates to integrity, fraud and professional scepticism.

A new project to improve the quality of auditor education and training is in the planning stages. We aim to support the bodies in identifying and implementing changes to improve the education and training interventions for current and future auditors. Any changes that are implemented will be reviewed as part of our oversight activities. Accountancy bodies are ultimately responsible for the quality and delivery of education and training; we plan to consult with them as early as possible to facilitate their discussion of the changes required to achieve this objective and the measures that will be used to assess that the desired outcomes are being achieved.

### **Rules and regulations of the professional bodies**

We have carried out reviews of changes proposed by the professional bodies to their own rules and regulations. This is to enable us to approve them or, when required, to advise the Privy Council Office that the changes may be approved. All the recognised professional bodies have made changes to their rules and regulations this year and we are satisfied that these changes will be beneficial and improve the governance of these bodies in the future.

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We reviewed and commented on these amendments and asked for further changes where we were unable to agree with a body's initial proposals. Where Privy Council approval of changes is required under the terms of a body's Royal Charter, our comments are submitted as advice to the Privy Council Office. In other cases, we communicate with the body directly.

The most significant rule changes this year were to ICAEW's Disciplinary Bye Laws (DBLs). ICAEW has restructured these so that there is a small number of core DBLs that set out duties and obligations of members and students and new Disciplinary Regulations that cover all the detailed disciplinary procedures, from receipt of a complaint to final disposal. As amendments to the Disciplinary Regulations do not require Privy Council approval, ICAEW will be able to amend them quickly in response to issues with how they are working in practice and changes in the regulatory environment. Some material has also been re-written by ICAEW to make it clearer and more accessible to users.

A body's rules and regulations are relevant to all its members, firms, and affiliates. It is helpful for us to see all rule amendments, including those not related to audit, and to be able to consider what impact and relevance they may have on our regulatory work. In assessing the changes, we consider whether the amended rules and regulations are clear and address any problems that a body has identified with its existing rules. In doing so we take the findings from our oversight of governance into consideration.

## **Cooperation with the Republic of Ireland**

Maintaining the relationship with the Republic of Ireland (ROI) and minimising disruption to cross border audits following EU Exit has been an important area of work. We have successfully worked with IAASA to negotiate a memorandum of understanding on reciprocal arrangements and to recognise in the UK the professional accountancy qualification awarded by Certified Public Accountants (CPA) Ireland.

EU Exit means that UK statutory auditors and audit firms are now required to be separately registered in Ireland to carry out audits of Irish entities. Very few UK firms have chosen to continue audit registration in Ireland and there is now a greater degree of divergence between the regulatory regimes in Ireland and the UK than existed before EU Exit. In ICAEW's view this has caused a disproportionate amount of work in meeting IAASA's requirements by comparison with the volume of Irish audit work still carried out by those audit firms it has registered. Consequently, ICAEW applied to IAASA for revocation of its registration as a Recognised Accountancy Body (RAB) and Prescribed Accountancy Body (PAB) in Ireland and the revocation took place on 21 July 2021. For similar reasons, ICAS also applied for revocation of its registration as a RAB, and PAB in Ireland and revocation took place on 22 December 2021. Any ICAEW and ICAS firms wishing to do audit work in Ireland will now need to register with another RSB that is still also a RAB. We have confirmed that appropriate re-registration arrangements are in place for these firms.

ACCA and CAI continue to be recognised both as RSBs in the UK and RABs in Ireland and for this reason, firms registered with these bodies are able to audit both Irish and UK entities if they wish to do so. IAASA has agreed that the FRC has the right to inspect audits of UK PIEs that are carried out by audit firms located in the ROI. This is because IAASA considers that such audits are not audits



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carried out under EU law and so the restrictions on access to audit working papers by third countries (which now includes the UK) do not apply in such cases.

Given the significant economic links between the UK and Ireland, we expect to continue to work closely with IAASA on matters of mutual interest.

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## 3. Oversight of Local Audit

The Local Audit and Accountability Act 2014<sup>13</sup> (LAAA) established the regulatory regime for the audit of local government and National Health Service (NHS) bodies, commonly referred to as local audit. These requirements broadly replicate the requirements in the Act for company audit.

In addition to setting up the Local Audit Monitoring Board, responsible for overseeing the implementation of and identifying any risk to the local audit regime, the Department for Levelling Up, Housing and Communities (DLUHC) commissioned an independent review by Sir Tony Redmond of the effectiveness of local audit and the transparency of local authority financial reporting under the local audit regime.

The report<sup>14</sup> was published in September 2020 and contained 23 recommendations covering external audit regulation, smaller authorities audit regulation, financial resilience of local authorities and transparency of financial reporting. DLUHC has publicly consulted and will now appoint the Audit, Reporting and Governance Authority (ARGA – the regulator being established to replace the FRC) as the new System Leader for local audit. ARGA will have new powers over local audit, mirroring the FRC's existing powers in relation to the audit of PIEs. To improve the effectiveness and transparency of local audit, these measures include the establishment of a new function within ARGA to take on responsibility for local audit-related work, including oversight and inspection.

In addition to establishing ARGA as the System Leader, DLUHC has asked the FRC to lead on two of the recommendations made by Sir Tony which deal with capacity and capability issues in this market. The work on these recommendations is being led by the Professional Oversight team until such time that the System Leader is established.

We are proposing to address capacity issue through revisions to the FRC's statutory guidance to the RSBs on the recognition of Key Audit Partners. We issued our revised guidance in June 2022. We asked CIPFA to take the lead on addressing the capability issues in the market with the FRC remaining involved. This work has reached a stage that requires decisions to be taken by DLUHC on future direction and financing before it may progress further.

### Key findings from local audit oversight and monitoring

Oversight of local audit has focused on implementation of our recommendations on registering firms for local audit, as well as key audit partners, and the monitoring of CPD. We also assessed whether the RQB qualifications continued to meet the requirements for local audit as set out in the LAAA.

We recommend that ICAEW continues to enhance its top-down<sup>15</sup> risk-based approach to its file selection for the local audit inspections to take account of the developing approach on corporate audits, and to focus on the impairment of infrastructure assets at local authorities. ICAEW's Audit

<sup>13</sup> [Glossary Reference 3.1](#)

<sup>14</sup> [Redmond Review.pdf](#)

<sup>15</sup> The approach should be top-down, in that each time a large firm is visited, the file selection should be made from the whole firm's audit portfolio list, reflecting the risks to audit quality.

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Visit Manual sets out how its quality assurance reviewers should select files for inspection at a firm. ICAEW has revised its procedures and now on an annual basis shares proposed sample sizes with FRC; discussing additional risk factors to be applied to local audit firms. We are therefore satisfied that this requirement has been met.

Notwithstanding these recommendations we are satisfied that ICAEW has adequate procedures in place to register firms and individuals to undertake local audit in line with its rules. ICAEW devotes sufficient resources to meet its obligations as a local audit RSB.

We engaged with CIPFA to understand and consider its response to the Covid-19 pandemic on the delivery of its local audit RQB responsibilities and reviewed its arrangements for marking examinations. We continued our previous work on the effectiveness of the governance arrangements. Additionally, we observed the operation of governance processes and met members of governance boards and committees. Our oversight and monitoring work did not identify any issues that raise concerns about CIPFA's compliance with the RQB requirements of the LAAA. We have recommended that CIPFA should amend its policy on dual marking of exam scripts.

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## 4. Oversight of the Institute and Faculty of Actuaries (IFoA)

The Professional Oversight Team carries out the FRC's non-statutory oversight of actuarial regulation through a memorandum of understanding (MOU) with the IFoA. We discharge our oversight responsibilities, in consultation with the IFoA, based on the risk to the public interest.

During 2021 IFoA proactively reviewed aspects of its regulatory framework to ensure it is fit for purpose and operating in the public interest. Our oversight found no evidence that IFoA's current regulatory framework is not effectively implemented. We have, however, made four new recommendations, one of which is covered in the Governance section of this report.

IFoA has concluded its review of its Disciplinary Scheme including addressing FRC's previous recommendations. The project encountered some resourcing challenges in 2021 but IFoA advised that the project was back on track by 2022. IFoA engaged with FRC on this review since 2019 and we reviewed IFoA's proposed changes in early 2022.

The FRC notes that IFoA proposes changing the definition for misconduct under its Disciplinary Scheme from conduct constituting failure to comply with the standards reasonably to be expected, to conduct falling significantly short of those standards.

Since the IFoA completed its review the Government Response was published in May 2022.

The Government Response to the consultation on audit reform confirms ARGA will have a statutory power to take action against the individuals responsible for breaches of standards and, in appropriate cases, take enforcement action. The FRC intends for the test for action under ARGA's new statutory enforcement regime to be whether there has been a breach of technical standards.

With this in mind, the IFoA have acknowledged they will need to consider whether any further changes are required to the IFoA's disciplinary framework once legislation has been drafted. This will ensure compatibility with ARGA's regime once ARGA is effected. We look forward to engaging with the IFoA on this matter to enable a smooth transition to ARGA's regime.

In January 2022 IFoA published its updated Practising Certificate Scheme. FRC raised a concern that changes to the scheme could weaken the overall rigour of the scheme, which the IFoA took into account. FRC considers that the Scheme should be clear that practising certificates could be refused if the evidence did not confirm the suitability of the candidate. IFoA agreed with this change.

We also raised a concern that IFoA proposed to ask for feedback on the Scheme document without also issuing the supporting handbook which, we understand, will provide guidance to members applying for practising certificates and will also explain the principles on which applications will be assessed. We concluded that the Handbook is essential to achieving a full understanding of how the scheme will operate. The FRC was given the opportunity to review both the Scheme and the Handbook before the Scheme document was finalised. We consider that IFoA missed an opportunity to seek feedback on potential flaws in the drafting of the Scheme by not providing

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members and other interested parties with an opportunity to review the Scheme and Handbook together before the Scheme was finalised. IFoA published the revised Scheme in January 2022, and the handbook was published in June 2022 with the new scheme in effect in December 2022.

From December 2020 to March 2022 IFoA produced four reports under its Actuarial Monitoring Scheme and had its next review underway. IFoA provides feedback to individual participants as well as producing an overall report. The reports include recommendations for all actuaries working in the relevant field, the identification of good and poor practices and comments on the application of relevant actuarial standards.

IFoA continues to develop its approach to reflective practice discussions (RPD) under its CPD Scheme as its basis for monitoring members' Career-Long Learning. IFoA carried out trial tests prior to conducting formal interviews of its members in 2021. IFoA is continuing to embed the approach and FRC will review the RPD process in 2022/23.

IFoA sought feedback from the participants in its Quality Assurance Scheme (QAS) and reviewed the efficiency and effectiveness of its procedures for accrediting organisations under the Scheme. It streamlined the six-yearly re-accreditation process but enhanced its regular monitoring of accredited organisations by introducing specialist reviews. The changes reflect feedback on the operation of the Scheme from IFoA's QAS Committee. IFoA also refined its annual returns to improve the clarity and completeness of information provided by the accredited organisations to evidence how each achieves the desired outcomes required under the Scheme. FRC considers IFoA's changes to be appropriate but will monitor the effectiveness of the changes in providing IFoA with assurance as to whether accredited organisations continue to meet the QAS outcomes.

Through the Government Response to the consultation on reform, the Government confirms that ARGAs' oversight of the IFoA will be brought on to a statutory basis. The FRC will be engaging in activities to facilitate the transition from the current voluntary oversight arrangement to the new statutory regime, including setting out the regulatory requirements and expectations that ARGAs, in its statutory oversight role, will expect actuarial professional bodies to adhere to.

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## 5. Oversight of Accountancy

In 2003, the FRC entered a non-statutory, independent oversight arrangement with five professional bodies under an exchange of letters with the Consultative Committee of Accountancy Bodies (CCAB). Under this informal agreement, the FRC oversees the professional bodies' regulation of the accountancy profession on a voluntary basis.

Currently most of the FRC's oversight work that is specific to accountancy relates to handling complaints from individuals who are dissatisfied with the way in which a complaint made to one of the CCAB professional bodies or CIMA (the bodies) has been handled. When such complaints are referred to the FRC, any ensuing reviews focus on whether the body followed its own rules and procedures in its consideration of the complaint. Where the FRC finds that a body has not followed its own procedures, it makes a recommendation to the body to address any failings.

In 2021/22 we received 44 complaints about the professional accountancy and actuarial bodies that we oversee. In addition, there were five complaints ongoing from the prior year.

We conducted a full review of the professional bodies' complaints handling process in nine cases, with two matters still under review as of 31 March 2022. None of the complaints reviewed raised issues of substantive mishandling and no recommendations for improvements were made to the bodies in relation to these complaints. The remaining 40 matters either fell outside the FRC's complaints handling full review remit, or the complainant had not first exhausted the professional accountancy body's or actuarial body's complaints procedure.

The majority of complaints received are regarding the way in which a professional body has dealt with a complaint about one of its members, or from students of the bodies, regarding examination and qualification processes. We are continuing to collect information on member complaints received by the bodies, so that we can monitor trends.

The Independent Review of the FRC recommended that the new regulator continues to have oversight over the professional accountancy bodies but found that the current voluntary arrangements needed to be strengthened. The Government confirmed its intention to extend the remit of the proposed statutory regime to include all relevant professional bodies, not only the chartered bodies – that is, professional bodies whose members are required to hold professional-level accountancy qualifications. The regulator will be monitoring and reviewing the regulation of the bodies' members; and have powers to require the bodies to take specific actions where significant public interest concerns are identified.

## 6. Oversight of Governance Arrangements and Climate Change

Our oversight of the bodies'<sup>16</sup> governance arrangements is based on the core principles of independence, effectiveness, fairness and transparency.

This year our approach to governance focused on the governance of each body's regulatory and educational activities. In relation to the oversight of each of the four regulatory pillars, namely Audit Registration, Audit Monitoring, Enforcement and CPD the oversight team engaged with the RSBs and attended/observed relevant boards and committees.

We also followed up our prior year recommendations which included the reliability of bodies' IT systems, transparency of bodies' websites and their overall governance procedures. All the bodies have taken positive action to improve their governance arrangements in the public interest.

### Key findings from governance oversight

All bodies have the necessary governance structures and arrangements in place to manage and oversee their regulatory activities. We did not find significant shortcomings in the openness of bodies' governance arrangements and governance activity. All the bodies displayed clear information about their purpose, constitution, and structure. All had taken steps, with some still in progress, to action all open prior year recommendations. Most publish regulatory meeting minutes and annual regulatory reports.

We have summarised key findings and recommendations below.

Professional Body	Findings and Recommendations
IFoA	From a review of the publicly available information and discussions with IFoA's executive team it was not obvious to us when the Regulatory Board receives regular reports on public interest matters relating to education and qualifications, or when public interest matters relating to education and qualifications should be escalated to the Board. MRAs are a reciprocal agreement between the Institute and Faculty of Actuaries (IFoA) and another actuarial body which recognises each other's professional qualifications. The new MRAs IFoA entered in 2021 were approved by the Management Board, following strategic direction by Council in accordance with the IFoA's governance framework. We recommend that IFoA has clear internal guidance when matters should

<sup>16</sup> In this section only, the term body (bodies) refers to the RSBs, RQBs and the IFoA.



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be reported to Regulatory Board to ensure that Regulatory Board can fulfil all its responsibilities at the appropriate time.

## **Review of activities to combat Climate Change**

We considered how decisions on climate change related matters are made by the RSBs/RQBs where relevant to their regulatory responsibilities, as set out in schedule 10 and 11 of the Companies Act 2006, and the Delegation Agreements with RSBs. We obtained an understanding of the key governance steps required to consider climate change matters relevant to their regulatory responsibility.

We obtained information about how the RQBs have included climate change within their syllabi, examinations, and practical experience requirements.

We also gained information about how the RSBs take climate change into account in performing delegated tasks such as Registration, Continuous Professional Development, Audit monitoring and Enforcement.

## **Key findings in relation to Climate Change**

All the professional bodies we oversee have recognised the importance of climate change within their strategy. Most have made available significant educational resources to support their members, however all the bodies have some way to go to embedding climate change and sustainability related considerations into their regulatory frameworks.

Currently none of the RSBs explicitly consider the competence of auditors regarding the impact of climate change and sustainability on financial reporting when registering new statutory auditors. Two of the RSBs, ICAEW and ICAS have taken steps to incorporate climate change considerations into their audit quality monitoring and a third, ICAI, has committed to training its monitoring team on climate change considerations for audits. From 2022/23 POT will be looking for evidence as to how the RSBs' audit monitoring teams are considering climate change and sustainability factors in audit quality monitoring and challenging auditors' work in this regard.

None of the bodies currently categorise or monitor climate related complaints, but all state none have been received to date. We will be asking the RSBs to identify complaints and investigations where the underlying matters are related to climate change or sustainability reporting so we can monitor if these types of complaints start to emerge in the future.

All the professional bodies we oversee have developed learning materials, articles, podcasts and /or sustainability pages on their websites. ICAEW, ACCA and IFoA have or are developing certificated learning programmes in sustainability.

None of the RSBs specifically check for auditor competence in the areas of climate change and sustainability as part of their monitoring of continuing professional development (CPD) of registered auditors. From 2022/23 POT will be seeking evidence that RSBs are considering auditors'

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competence in relation to the impacts of climate change and sustainability in financial reporting as part of their monitoring of CPD, in line with the requirements of International Education Standard 8.

IFoA has made commitments to address the risks of climate change and to support sustainability, for example by providing more CPD opportunities in this area. Going forward we will consider the extent to which climate-related and sustainability training has been included, when performing oversight of CPD records reviewed in the RSBs' registration and CPD declaration processes and through IFoA's reflective practice discussions.

Some of the RQBs have indicated that they have already started to incorporate climate change and sustainability related matters in their educational materials and examinations, however this has not yet been developed consistently across all the bodies. From 2022/23 we will be seeking information regarding where the bodies have identified that climate changes and sustainability are relevant and should be taught and examined in respect of the prescribed subjects. POT will also be seeking evidence of how the RQBs are ensuring that their approved training offices are giving students practical experience of climate change and sustainability that may affect audits in future, such as impacts on going concern, supply chains and asset valuations as well as disclosures. We will seek to understand how IFoA is incorporating climate change and sustainability in its standards framework, Career-Long Learning and expectations for CPD.

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## 7. Regulation of Third Country Auditors

In the UK, the FRC has statutory powers delegated by Government for the regulation of TCAs<sup>17</sup>. All TCAs must register with the FRC before they sign UK audit reports. Where a TCA is not subject in its home country to oversight, quality assurance review and discipline systems which are recognised by the UK as being equivalent, the FRC applies its own systems of oversight and quality assurance review. The underlying principle is that all auditors of companies whose securities are traded on UK-regulated markets should be subject to equivalent regulation, regardless of where the relevant issuer is incorporated.

As of 31 March 2022, there were 135 registered TCAs from 50 countries.

The EU Exit Transition Period ended on 31 December 2020. All non-UK audit firms that audit companies listed on a regulated market in the UK must now register as TCAs. We upgraded our own systems for registration of third country auditors to manage the anticipated increase in applications. Since the end of the Transition Period, we have registered 42 firms from the European Economic Area (EEA) and have 2 more applications pending. We do not expect many more European firms to register as TCAs. We have also worked with BEIS to assist UK firms that needed to register for the first time as third country auditors in some EU states, where there was lack of clarity about the requirements to be met.

The FRC also has the power to remove a TCA from the UK register of TCAs under certain circumstances, as set out in the Act and in the Statutory Auditors and Third Country Auditors Regulations 2013. The Third Country Auditor Register Procedures<sup>18</sup> set out the procedures followed by the FRC in such circumstances.

### Key findings from audit quality monitoring of TCAs

The FRC is required to review on a cyclical basis the audit quality of TCAs from jurisdictions which have not been assessed by the Government as having systems of audit regulation equivalent to that of the UK. The FRC is also required to carry out such reviews for jurisdictions with systems of audit regulation assessed as needing limited modification to achieve Equivalence status, and which have been assessed as likely to be implemented within a specified period (referred to as transitional third countries).

We apply a system which is proportionate to the risk profile of the issuer and the jurisdiction. Our audit quality monitoring of TCAs focuses on those companies considered to be of significance to UK investors. We also use alternative methods, rather than direct inspection of audit files, to undertake reviews of TCAs which audit lower risk issuers.

Due to covid travel restrictions, and the legal restrictions preventing remote review, we have performed fewer inspections than originally planned. As a temporary measure, we requested firms to allow us to review their audit working papers remotely from the UK. However, there are legal and

<sup>17</sup> Non-UK auditors of non-UK incorporated companies whose securities are traded on a regulated market in the UK.

<sup>18</sup> <https://www.frc.org.uk/getattachment/5bcb2bb4-db61-421e-89d8-1fdda8ea22c2/TCA-Register-Procedures.pdf>

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practical restrictions preventing remote review of firms in certain jurisdictions. Of the 2021/22 programme, we have completed four inspections remotely. No significant issues were identified for two of the reviews. One audit was assessed as requiring improvements, and one requiring significant improvements.

For 2022/23 we are now able to carry out onsite inspections, although there continue to be practical restrictions preventing onsite review of firms in certain locations.

Carrying out inspections of audit firms widely scattered across the world poses legal and practical challenges in some jurisdictions. Typically, each firm has only one or two audited entities that fall within the scope of our monitoring obligations. Local confidentiality laws can hinder access to audit working papers for the purposes of the FRC's inspection. We endeavour to overcome these challenges when they arise. We require TCAs to confirm, at the point of registration and during annual renewals of registration, whether there are legal restrictions that would preclude the FRC from performing an inspection of its relevant audits. Where such restrictions exist, we require the TCA to resolve them. Methods of doing so include obtaining consent from the audited entity or redacting certain information in audit working papers to satisfy local confidentiality laws. However, TCAs are not always able to resolve such restrictions. In these cases, the FRC is not able to register the firms as TCAs and in the case of those TCAs already registered, de-registration procedures will be initiated. In 2021 the FRC removed Egyptian firms from the TCA Register, as the FRC was not able to obtain assurance that inspections would be permitted.

We are currently in the process of determining whether inspections may be possible of Russian TCAs. Until now our analysis of the legal requirements in Russia has led us to believe that physical inspections would be allowed. However, recent changes to their legislation appear to have created new barriers. Russia does not permit virtual inspections and this, along with the Covid travel restrictions and the Ukrainian conflict, has meant that the requirement to inspect audit firms from full registration countries every three years has been missed.

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## 8. Equivalence and Adequacy

The FRC has been commissioned by BEIS to undertake two Equivalence assessments and one Adequacy assessment per year using the assessment framework developed by the FRC in 2020. During 2021/22 we completed Equivalence and Adequacy assessments of the US and commenced Equivalence assessments of the Cayman Islands and Bermuda. Despite requesting an assessment the Egyptian competent authority has failed to respond to the questionnaire sent in 2021 and is no longer on our schedule for assessment. Instead, BEIS is now considering Hong Kong as the next jurisdiction to be assessed.

Despite BEIS submitting applications to the European Commission during 2020 for the UK to be assessed for Equivalence and Adequacy, no progress has been made and we have no indication of when the applications might be considered. As a result, UK audit firms seeking registration in EEA states are subject to a longer application process. Registered UK audit firms are subject to inspection procedures by EEA competent authorities, although none have been requested to date. We remain ready to assist BEIS when the European Commission considers the UK's applications.

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## 9. Mutual Recognition of Professional Qualifications

We started a project in early 2021 to seek agreements with third countries for mutual recognition of audit qualifications. This work is supported by professional bodies and by firms because of the impact it may have on the international standing of UK audit qualifications and the attractiveness of the UK audit market for the recruitment of skilled auditors from third countries.

We met our counterparts and other relevant bodies in over 30 EU and non-EU countries. We judged these to be priority countries based on the number of individuals who may potentially benefit as well as the overall level of economic ties with the UK, including whether there is a free trade agreement in place. In the case of EU countries, the main issue is whether an agreement with the UK on audit qualifications must be on an EU-wide basis under the UK-EU free trade agreement or whether bilateral agreements between the UK and individual member states are also possible. With only a few exceptions such as Luxembourg, most EU states have indicated that their preference is to adhere to the EU Commission policy position and wait for an EU-wide agreement between the EU Commission and the UK, even though this will likely require more time to achieve.

We have now narrowed down our priority countries to those where there is a clear interest in a mutual recognition agreement with the UK and the potential for negotiations to commence in the short term. In addition, the terms of the UK's free trade agreement with the EEA EFTA countries require arrangements to be put in place within two years from the date of the agreement for the mutual recognition of professional qualifications. Working with BEIS, we are in contact with these countries to start this process.

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# Appendix 1: The FRC's Professional Oversight role explained

The FRC's oversight functions are undertaken by its Professional Oversight Team. These include:

- statutory oversight of the audit regulatory work performed by the Recognised Supervisory Bodies (RSBs) and Recognised Qualifying Bodies (RQBs) in relation to corporate and local audit;
- oversight by voluntary agreement of aspects of regulation by professional bodies, that are members of the Consultative Committee of Accountancy Bodies (CCAB), in relation to the accountancy activities of their members;
- oversight by voluntary agreement of the regulatory responsibilities of the Institute and Faculty of Actuaries (IFoA) in relation to its members.

The Professional Oversight Team also manage the administration of the Third Country Auditor (TCA) regime for auditors based outside the UK, auditing entities with a listing on a regulated market in the UK.

We report annually in accordance with legislation<sup>19</sup>.

## Delegation by the FRC to the RSBs

The Secretary of State may give Directions to the FRC in connection with the delegation of tasks to the RSBs<sup>20</sup>. In 2016 a Direction issued pursuant to this provision, by the then Parliamentary Under-Secretary of State, Baroness Neville-Rolfe, stated that: "The Government intends that the FRC should be the UK Competent Authority for the regulation of auditors, but that legislation will require it to delegate regulatory tasks so far as is possible to RSBs that meet criteria set out in the legislation". The delegated activities are set out in delegation agreements, agreed with each RSB.

On 31 May 2022, the Government published a new direction which came into force on 31 July 2022, revoking the previous direction. The FRC worked closely with the RSBs to amend the delegation agreements to reflect the Government's wishes to provide the FRC with greater autonomy over which tasks it delegates, whilst providing RSBs with the reassurances they required to continue to carry out the delegated tasks effectively. The updated agreements also reflect the FRC's reclamation of PIE auditor registration, which is scheduled for full implementation by the end of 2022.

## Recognised bodies and recognition criteria

To be an RSB, the body must continue to satisfy the recognition criteria as set out in Schedule 10 of the Act. Similarly, to be an RQB, the body must continue to satisfy the recognition criteria as set out in Schedule 11 of the Act.

<sup>19</sup> [Glossary Reference 2.1](#)

<sup>20</sup> [Glossary Reference 2.2](#)



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Individuals and audit firms that wish to be appointed as a statutory auditor in the UK must be registered with an RSB and individuals responsible for audit at registered firms (responsible individuals) must hold a recognised audit qualification.

The following are both RSBs and RQBs:

- ACCA;
- ICAEW;
- ICAI;
- ICAS.

In addition:

- AIA (Association of International Accountants) is an RQB only.

There is a separate regime for local audit.

### **Enforcement powers against the recognised bodies**

As the Competent Authority, and under the terms agreed with the RSBs in the Delegation Agreements, where the FRC finds issues with an RSB's performance of a Delegated Task the FRC may:

- direct the RSB to do or refrain from doing a particular action;
- reclaim a case or Delegated Task;
- terminate the Delegation Agreement with that RSB; or
- take such other measure(s) as the FRC deems reasonable and appropriate.

As the Secretary of State's delegate, the FRC also has the following range of statutory enforcement powers in relation to the recognised bodies' compliance with the required statutory criteria for their continued recognition under the Act as RSBs and RQBs. The FRC can:

- direct an RSB or RQB to take specific steps to meet its statutory requirements or obligations;
- seek a High Court order requiring an RSB or RQB to take specific steps to secure compliance with all statutory requirements or obligations;
- impose a financial penalty on an RSB or RQB where it has not met a statutory requirement or obligation on it; and
- revoke the recognition of an RSB or RQB where it appears to the FRC that requirements for continued recognition have not been met.

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## Oversight and monitoring procedures

The FRC follows a risk-based approach to determine the regulatory issues that we should focus on each year in the context of the monitoring activities of the different bodies. To help us plan and carry out our oversight role, each RSB and RQB provides an annual regulatory return, which includes information on their regulatory activities during the previous year. The bodies also provide us with their regulatory plans, which are forward-looking documents covering all significant work in progress. Each body is expected to inform the FRC immediately of any significant issues relevant to its role as an RSB or RQB to ensure that the FRC's views are considered before decisions are made.

To discharge the FRC's responsibilities as the Competent Authority and the Secretary of State delegate, the FRC undertakes oversight activities throughout the year as follows:

- understanding and documenting how each body meets all the statutory requirements for continued recognition, including information on how it complies with relevant legislation;
- annual compliance testing of the way in which each body's regulatory systems operate in practice during monitoring visits and evaluating the effectiveness of specific aspects of the regulatory system;
- reviewing, assessing and discussing the information in returns and regulatory plans submitted by the bodies;
- keeping in regular contact with each body, including through an annual cycle of meetings at director and CEO levels, to discuss current issues, trends and future developments;
- ensuring that the RSBs are compliant with the Delegation Agreement;
- requiring specific actions or making recommendations arising from the activities above; and
- ensuring our requirements and recommendations made in prior years have been implemented and have effectively addressed the issues raised.

## Oversight and monitoring of RSBs and RQBs

We assessed each RSB's performance of its Delegated Tasks in relation to (i) audit registration, (ii) audit monitoring, (iii) enforcement and (iv) CPD. We also assessed each RSB's compliance with conditions in the Delegation Agreements for the delegation of tasks and with the general criteria for continued recognition as an RSB. Over the last four years we changed the frequency of our audit registration, enforcement and CPD monitoring inspections from an in-depth inspection every three years to annual visits. This has enabled us to seek recent evidence that effective policies and procedures are implemented at each RSB. In addition to this work, we continued our annual shadowing of the RSBs' audit quality monitoring visits to the firms by using remote methods.

The RSBs have reported on three Key Performance Indicators (KPIs) for annual review activity and audit quality monitoring. We will continue monitoring the RSBs against these measures to ensure audit quality is maintained or improved wherever necessary.

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We assessed whether the RQBs' qualifications continued to meet the requirements of Schedule 11 of the Act. We conducted a review of the process by which each body marks its examinations. We also continued to engage with the RQBs to understand and consider their response to the impact of Covid-19 on the way they deliver their RQB responsibilities. We also continued our previous work on the effectiveness of the governance arrangements relating to each RQB's responsibilities. We found no significant issues with the policies and procedures of the RQBs, and the monitoring visits were performed to a satisfactory standard.

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# Glossary: Links to Delegation Agreements and Key Relevant Legislation

## 1. Key References in the Executive Summary

Glossary Reference	Delegation Agreement
1.1	<b>Delegation Agreements</b> <a href="https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements">https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements</a>

Glossary Reference	Delegation Agreement
1.2	<b>Companies Act 2006 Schedule 10</b> <a href="https://www.legislation.gov.uk/ukpga/2006/46/schedule/10">https://www.legislation.gov.uk/ukpga/2006/46/schedule/10</a>
1.3	<b>Companies Act 2006 Schedule 11</b> <a href="https://www.legislation.gov.uk/ukpga/2006/46/schedule/11">https://www.legislation.gov.uk/ukpga/2006/46/schedule/11</a>

## 2. Key References supporting our oversight of Statutory Audit

Glossary Reference	Legislation
2.1	<p>We report annually:</p> <p><b>as the Competent Authority for statutory audit in the UK</b> on our activities under the EU Regulation 537/ 2014(Audit Regulation), the Statutory Auditor and Third Country Auditors Regulations 2013 (SATCAR 2013) and the Statutory Auditor and Third Country Auditor Regulations 2016 (SATCAR 2016). Since 2016, audit regulation tasks under this legislation are carried out by the FRC in its capacity as Competent Authority and by RSBs as delegates of the FRC, under terms set out in the <a href="#">Delegation Agreements</a>. The legislative amendments applicable to our future work, which reflecting the UK's departure from the European Union, are the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 and the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2020<sup>21</sup>. Under the European Union (Withdrawal Agreement) Act 2020, audit regulation is retained EU law and continues to apply in the UK as modified; and</p> <ul style="list-style-type: none"><li>• <b>as the Secretary of State delegate</b> under Part 42 of the Companies Act 2006, we report on the accountancy bodies that are responsible for:<ul style="list-style-type: none"><li>• supervising the work of statutory auditors as set out in Schedule 10 to the Act;</li><li>• offering an audit qualification as set out in Schedule 11 to the Act; and</li><li>• the enforcement of statutory requirements under Part 42 of the Act.</li></ul></li></ul>

21 The legislative framework for the competent authority has been amended to reflect the UK's departure from the European Union. This legislation includes the Statutory Auditors, Third Country Auditors and International Accounting Standards (Amendment) (EU Exit) Regulations 2019 (SI 2019/1392); the International Accounting Standards, Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2020 (SI 2020/335); the Companies and Statutory Auditors etc. (Consequential Amendments) (EU Exit) Regulations 2020 (SI 2020/523); the Statutory Auditors and Third Country Auditors (Amendments) (EU Exit) (No. 2) Regulations 2020 (SI 2020/1247); and the European Grouping of Territorial Cooperation and Limited Liability Partnerships etc (Revocations and Amendments) (EU (Exit) Regulations 2021 (SI 2021/153).

Section 1252(10), and paragraph 10(1) of Schedule 13 to the Act, require the FRC to report annually to the Secretary of State on the discharge of these delegated powers and responsibilities.

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| 2.2 | Regulation 3(12) of the Statutory Auditors and Third Country Auditors Regulations 2016. |
| 2.3 | The Statutory Auditors and Third Country Auditors Regulations 2016                      |

### 3. Key References supporting our oversight of Local Audit

Glossary Reference	Legislation
3.1	The Local Audit and Accountability Act 2014 sets out the requirements in England for the regulation of auditors of local and certain other public bodies (principally local authorities and health bodies other than Foundation Trusts).
3.2	In this document the term “Key Audit Partner” is defined in paragraph 28(5) of Schedule 5 to The Local Audit and Accountability Act 2014 as “an individual identified by the firm as being primarily responsible for local audits” and should be the person authorised by the firm to sign the audit opinion on behalf of the firm. The “Key Audit Partner” need not be a partner in his or her firm.

### 4. Key References supporting our regulation of Third Country Auditors

Glossary Reference	Legislation
4.1	The UK requirements are established within the legal framework set out in the <a href="#">Companies Act 2006</a> , the Statutory Auditors and Third Country Auditors Regulations 2013 ( <a href="#">SI 2013/1672</a> ), the Statutory Auditors and Third Country Auditors Regulations 2016 ( <a href="#">SI 2016/649</a> ) (as amended) and the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 ( <a href="#">SI 2019/177</a> ) as amended.













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Financial Reporting Council



**Financial  
Reporting Council**  
8th Floor  
125 London Wall  
London EC2Y 5AS  
+44 (0)20 7492 2300

[www.frc.org.uk](http://www.frc.org.uk)

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