



Financial Reporting Council

The Financial Reporting Council's report on its oversight of the professional bodies during 2022/23

November 2023



Foreword by Executive Director of Supervision

Effective regulation of the audit profession is essential for maintaining trust in financial markets, and protecting stakeholders, particularly during turbulent times. As their regulator we expect robust and proportionate regulation from the professional bodies to ensure high standards are achieved.

Our oversight of the professional bodies also supports our work as an improvement regulator to ensure the regulatory activity of professional bodies enhances audit quality across the market to respond to challenges in the UK audit sector.

The recognised supervisory bodies (RSBs) and recognised qualifying bodies (RQBs) continue to meet the recognition criteria. The RSBs are substantially complying with the terms and conditions of the Delegation Agreements, however there are some areas where they need to make improvements in a timelier fashion, which have been highlighted in this report.

Since 2020, the audit profession has contended with a variety of significant challenges, including Covid-19 and the steep rise in inflation which has led to increased operational costs. In responding to these challenges, the professional bodies have been proactive in maintaining high regulatory standards.

However, the audit market is under strain. There is a mismatch between the demand for skilled, experienced auditors and their availability which is having a sizeable impact on small and medium firms. In addition, several complex, hard to audit public interest entities (PIEs) have been transferred to smaller firms who may not have the experience, resources or capabilities to perform a high-quality audit of such entities. This increases the significance of the RSBs' role in assessing the risk of their registered firms and monitoring the quality of the audits they are delivering.

At the same time, due to several high-profile corporate collapses, the quality and reliability of audit has come increasingly under the spotlight. We are closely supervising the professional bodies to ensure they are prioritising improvements to auditor qualifications, skills, and training to create a more effective audit profession.

From 2023/24, we are adopting a supervisory model for the oversight of professional bodies, designed to further identify and prioritise actions needed to enhance audit quality and the resilience of professional bodies to deliver their delegated tasks and statutory obligations related to audit and accountancy.



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The Financial Reporting Council

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Presented to Parliament pursuant to section 1252(10) of, and paragraph 10(3) of Schedule 13 to, the Companies Act 2006.

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1. Introduction: Our oversight responsibilities

This is the 2023 report of the Financial Reporting Council (FRC) to the Secretary of State for Business and Trade on how it has discharged the powers and responsibilities delegated to it under the [Companies Act 2006](#) (the Act). The Act requires the FRC to report annually¹ to the Secretary of State on the discharge of these delegated powers and responsibilities. The report describes the key matters that arose from the FRC's statutory oversight and non-statutory oversight work. The scope of this work is described in more detail below.

The FRC's oversight functions are undertaken by its Professional Body Supervision team. The areas included in this report are:

Statutory responsibilities

Statutory audit oversight

The FRC is the Competent Authority for statutory audit in the UK. Our responsibilities are set out in regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016² (SATCAR).

The FRC's statutory responsibilities for oversight of the regulation of statutory auditors are discharged by:

- Overseeing the regulation of statutory auditors by recognised supervisory bodies (RSBs)³ and the award of the statutory audit qualification by recognised qualifying bodies RQBs⁴ and assessing annually whether the recognised bodies continue to meet the requirements for recognition⁵.
- Assessing that each RSB carries out the key Regulatory Tasks delegated to it by the FRC as Competent Authority in accordance with the requirements of the Delegation Agreements⁶ between the FRC and the RSB. The tasks include the registration of audit firms and individuals, audit firm monitoring, continuing professional development (CPD) and enforcement.

The FRC has a graduated range of enforcement powers which it may use in cases where an RSB or RQB fails to meet its statutory responsibilities.

The professional bodies we oversee:

RSB and RQB:

- Association of Chartered Certified Accountants (ACCA)
- Institute of Chartered Accountants in England & Wales (ICAEW)
- Institute of Chartered Accountants in Ireland (ICAI)
- Institute of Chartered Accountants of Scotland (ICAS)

RQB (only):

- Association of International Accountants (AIA)
- Chartered Institute of Public Finance and Accountancy (CIPFA)

Actuaries:

- Institute and Faculty of Actuaries (IFoA)

¹ Section 1252(10), and paragraph 10(1) of Schedule 13 of the Companies Act 2006

² [Regulation 3 of SATCAR](#)

³ [Under Schedule 10 of the Companies Act 2006](#)

⁴ [Under Schedule 11 of the Companies Act 2006](#)

⁵ [Recognition of RSBs and RQBs](#)

⁶ [Delegation Agreements between FRC and RSBs](#)

Non-statutory responsibilities

This report also sets out the results of the FRC's non-statutory oversight of areas, which the Government has confirmed will become statutory responsibilities on the formation of the Audit Reporting and Governance Authority (ARGA).

Actuarial oversight

The FRC conducts oversight of the Institute and Faculty of Actuaries (IFoA) by voluntary agreement. Our oversight is facilitated by a Memorandum of Understanding (MoU)⁷ between the FRC and the IFoA, supplemented by a Communications Protocol⁸.

The Government has confirmed⁹ that ARGA's oversight of the IFoA will be brought onto a statutory basis. The FRC will continue to engage with the IFoA on activities to facilitate the transition from the current voluntary oversight arrangement to the new statutory regime.

Accountancy oversight

The FRC's oversight of accountants is currently limited to the complaints handling of accountancy bodies.

In May 2022, the Government confirmed its intention to extend the remit of the proposed statutory accountancy oversight regime through the establishment of ARGA to include all relevant accountancy professional bodies, whose members are required to hold professional-level accountancy qualifications equivalent to a level 6 qualification or above. The extended regime will 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.

Our supervision of the professional bodies

We are overhauling our oversight approach by adopting a supervisory model, based on the model which we have tried and tested for the largest audit firms. This will provide a more detailed assessment of the professional bodies' effectiveness. Using our four faces model¹⁰, we will identify and prioritise actions needed to enhance audit quality and the resilience of professional bodies to deliver their delegated tasks and statutory obligations related to audit and accountancy. We will hold them accountable for their performance in these areas. This updated approach will continuously improve the regulation of the UK audit market by utilising our oversight experience and skills. It will also enable us to assess the professional bodies' leadership and business models more effectively, ensuring that high standards of audit quality remain a top priority.

7 [MoU between the IFoA and FRC](#)

8 [Communication Protocol between the IFoA and FRC](#)

9 [Page 153 of Restoring trust in audit and corporate governance: government response to consultation on strengthening the UK's audit, corporate reporting and corporate governance systems](#)

10 [Page 5 of the FRC Business Plan 2022-25](#)

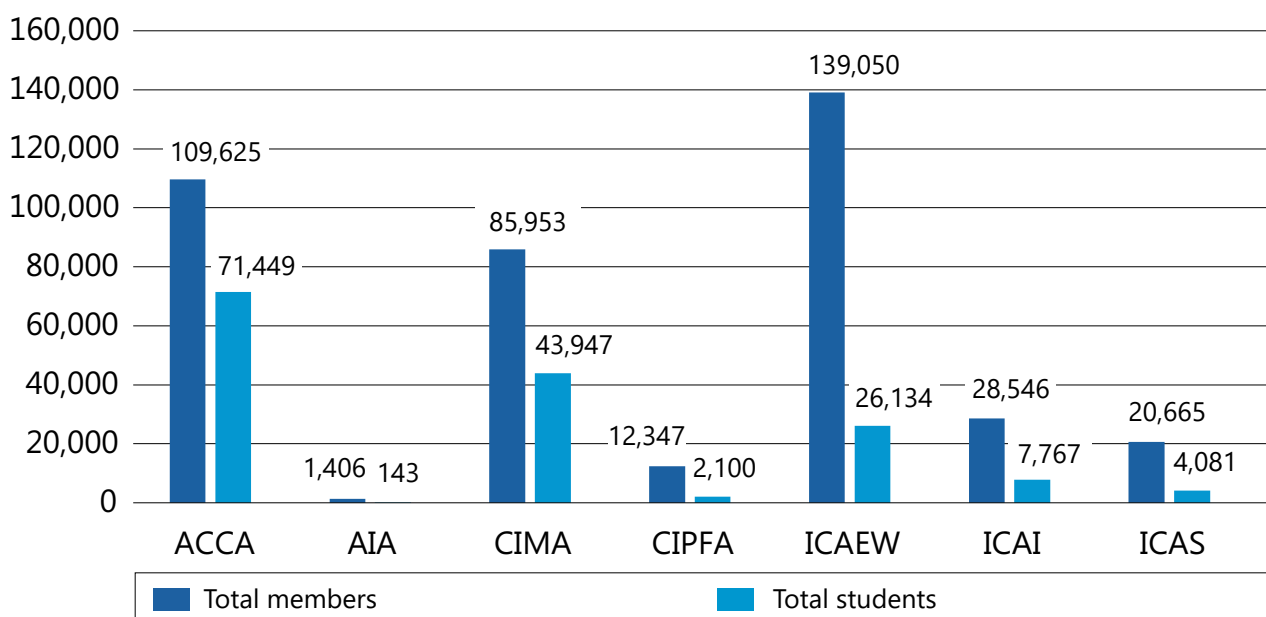
2. Oversight illustrated

The tables below offer a high-level overview of the scale of the FRC’s supervisory work. Table 1 shows the number of members and students registered at each professional body in the UK and Republic of Ireland (RoI). At the time the data was collected, there were 397,587 members registered at a professional body which was an increase of 2.1% from the previous year. Conversely, there had been slight fall of 5,716 registered students taking the overall number registered at a professional body in 2022 to 155,621.

Table 2 reflects the number of firms and RIs registered at each body. The table illustrates that ICAEW is the largest RSB and registers the highest number of firms and RIs. We take a proportionate approach to our oversight work to account for the population size of each body.

ICAEW is the only RSB recognised for local audit. Table 3 shows that there has been one new firm registered to conduct local audit and no change to the number of key audit partners (KAPs). As noted later in this report, the FRC is working closely with the Department of Levelling Up, Housing and Communities (DLUHC) to prepare for the shadow systems leader role.

Table 1: Number of members and students in UK and RoI¹¹



¹¹ Data accurate as of 31 December 2022

Table 2: Registered audit firms and responsible individuals (RIs) authorised to sign UK audit opinions¹²

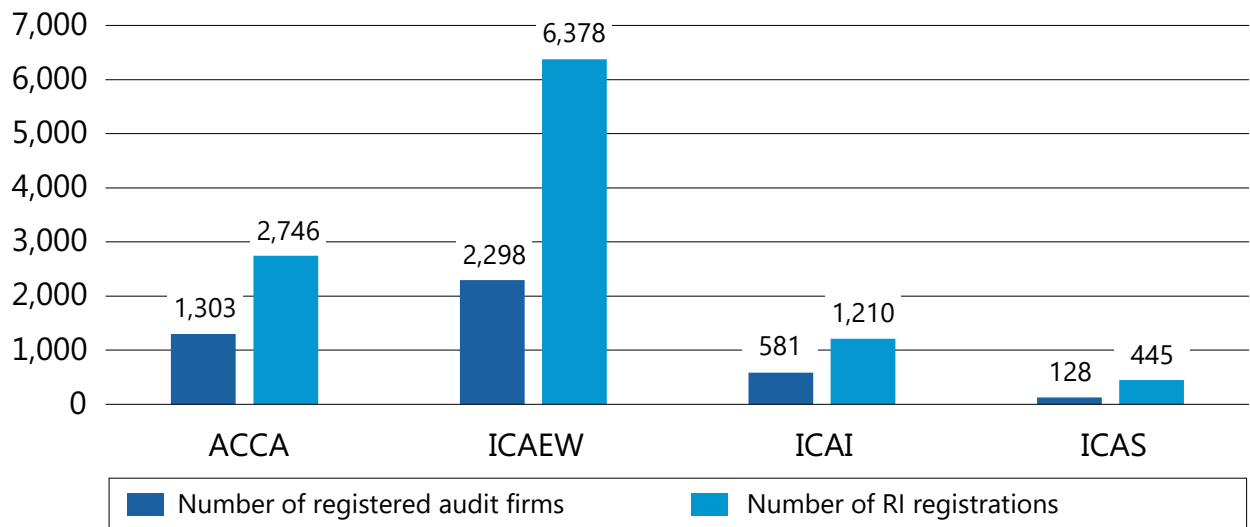
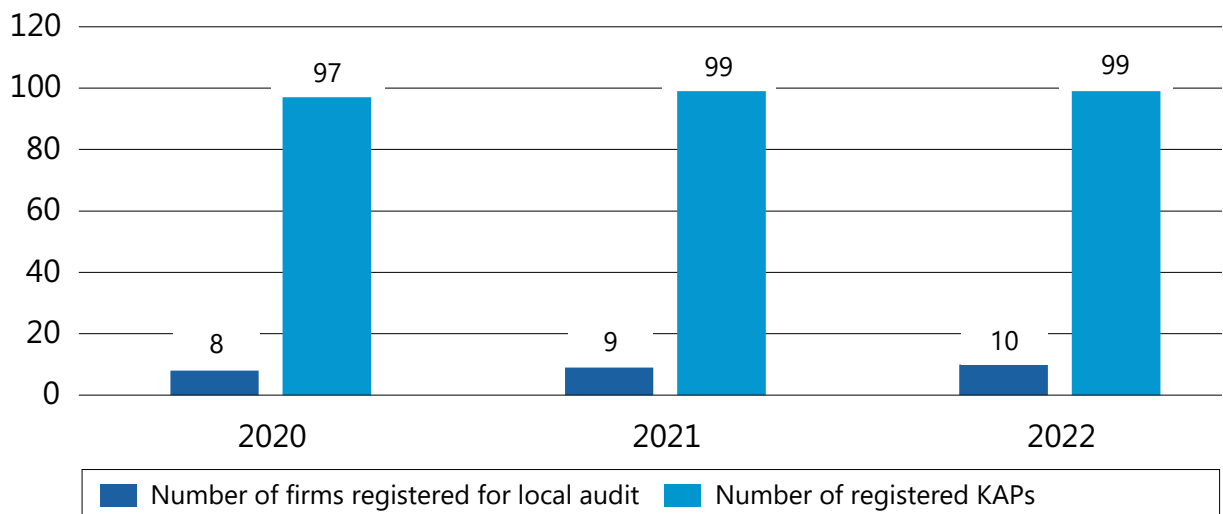


Table 3: Registered local audit firms and KAPs¹³



¹² Data accurate as of 31 December 2022

¹³ Data accurate as of 31 December 2022

3. Overview

Conclusions

Based on our statutory and non-statutory oversight in 2022/23, our principal conclusions are:

- The RSBs and RQBs continue to meet the recognition criteria in Schedules 10 and 11 of the Act.
- The RSBs are substantially complying with the terms and conditions of the Delegation Agreement.
- We are satisfied that IFoA has implemented its regulatory framework sufficiently and is keeping this framework under review to ensure it continues to be fit for purpose.
- None of the complaints we reviewed raised issues of substantive mishandling by any of the professional bodies.

Whilst we are satisfied that the recognitions of the bodies should continue, we have nevertheless made requirements and recommendations for each body where we consider that improvements are still required. Requirements should be implemented within 12 months and recommendations within three years unless we have agreed a different timescale with the body. The suitability and effectiveness of the implementation is assessed in subsequent years' oversight work. Requirements are only made to RSBs which are not fully meeting the terms of a Delegation Agreement.

A list of the requirements and recommendations for each body may be found in the [Appendix](#).

Key themes

We set out below the key themes arising from our oversight work this year and current pressures in the audit market.

- **Audit market volatility:** Over recent years several of the largest audit firms have reviewed their audit portfolios and exited audits solely for commercial reasons or to avoid complex or difficult audits. These audits may subsequently be taken on by firms who may lack the necessary skills, resources and/or experience to do so. The FRC's [Tier 1 Firms – Overview report](#), published in July 2023 made it clear we consider that firms have a responsibility to consider the impact on the public interest before resigning, deciding not to re-tender and declining an invitation to tender for an audit.

We have been working closely with the RSBs to understand and assess the potential impact this has on non-PIE audit quality and choice. The ICAEW, in particular, has been proactive in identifying and taking steps to address risks to audit quality across the smaller end of the sector. The recruitment of the ICAEW's Audit Risk Manager in the year is a welcome step in identifying and developing strategies to minimise the risk posed by the transfer of such audits to smaller and perhaps more inexperienced audit firms.

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- **Use of Artificial Intelligence (AI):** All the professional bodies are taking steps to address the risks posed by AI and machine learning tools, both for students and regulated professionals. We have made it clear that audit firms must improve their controls in this area and our RQB work has involved detailed discussion of the use of technology in exams, particularly considering the opportunities for cheating that this may provide¹⁴.

AI does not solely relate to examinations, and we will continue to work with the professional bodies to ensure that future regulation of AI in the audit profession is proportionate and does not stifle innovation.

- **Quality of audit monitoring and documentation:** We continue to stress the importance of clear and detailed documentation of monitoring visits performed by RSBs, and the challenge made of audit firms. We expect the inspections of individual audits and firms performed by the RSBs to focus on the quality of the audit work performed in the areas selected for review, the appropriateness of key audit judgments made, and the sufficiency and appropriateness of the audit evidence obtained. We expect the RSBs to ensure that appropriate training, guidance, and process improvements are made to address our requirements.
- **Effective continuing professional development (CPD):** The purpose of CPD is to ensure auditors stay up to date with the latest developments and changes in the auditing profession, maintain and enhance their knowledge and skills, and remain competent to carry out their role effectively.

We have identified findings for each RSB and expect to see significant improvements in how CPD is monitored and assessed which we have explained in more detail in section 3. This includes requiring RSBs to improve CPD processes and how they communicate with RIs.

- **Local Audit:** As the incoming shadow systems leader for local audit, the FRC is committed to leading a coherent and coordinated policy response to challenges arising across the local audit system. We continue to work closely with ICAEW, as the sole RSB for local audit to ensure the requirements for registration remain robust but accessible.

For the remainder of 2023, the FRC is leading a workforce strategy with all local audit stakeholders, including the Institute of Public Finance and Accountancy (CIPFA) which is the only RQB for local audit which covers the capacity and supply of local auditors. We will continue to assess and determine whether there is a case to update the local audit registration and KAP accreditation requirements.

We are determined to address any unnecessary barriers to entry and facilitate greater market competition without compromising high professional standards and audit quality.

¹⁴ [Exam cheating at UK audit firms uncovered by watchdog | Accountancy | The Guardian](#)

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- **IT development:** The use of effective IT systems is essential for organisations to perform their functions efficiently and transparently. We continue to encourage the professional bodies to invest proportionately and responsibly in technology so they can ensure compliance, monitor risk, protect consumers and maintain the integrity of the audit market.
 - **Audit registers:** The Register of Statutory Auditors (the Register) contains a list of statutory audit firms and individuals who are authorised to sign statutory audits. The Register is managed by the RSBs, which are responsible for ensuring its accuracy.

After some initial work by ICAS, ICAEW is working to develop an updated platform for the Register to ensure it is fit for purpose and to look at additional information that could be included that would help users. This must be able to incorporate the [PIE¹⁵ Auditor Register](#) which went live in December 2022, as this sets additional requirements for registered audit firms wishing to audit PIEs.

We have also encouraged all RSBs to conduct regular quality checks of the information they own and display on the register to ensure it is accurate.

The ICAEW also maintains the Local Audit register and we were pleased to note that it is taking proactive steps to ensure the information contained on the register is accurate and up to date.

It is imperative that the accuracy of both registers is maintained to ensure transparency and accountability in the auditing profession by enabling stakeholders to identify and verify the qualifications and credentials of auditors who are carrying out statutory audits.

Our supervision of the professional bodies

As noted earlier in the report, starting in 2023 we are moving to a supervisory approach for the oversight of the professional bodies, building on the model in place for the supervision of audit firms.

Where before we mainly concentrated on the bodies' performance of statutory and delegated functions, our supervision work will take on a more holistic view of the organisation. Focusing on the structures and arrangements in place that have the greatest impact on regulatory activities, such as business models, risk management, financial and organisational resilience, culture, and tone at the top. This will take the form of thematic reviews, over time reducing the need for so much 'sample testing' of individual regulatory tasks and decisions.

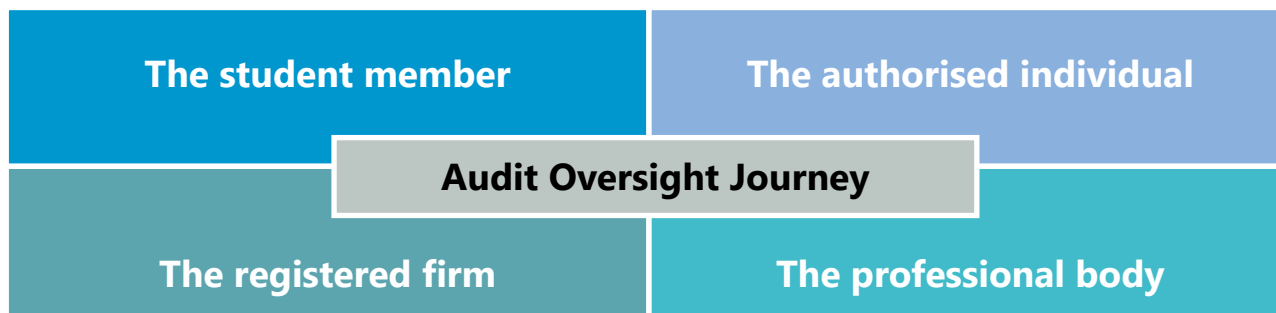
Applying a supervision model to our understanding and oversight of the professional bodies will also enable us to explore the perception of an imbalance in regulation between the PIE and non-PIE market and ensure a proportionate regulatory approach.

15 Public Interest Entity – in the UK, PIEs are defined in Section 494A of the Companies Act 2006 and comprise: Entities with a full listing (debt or equity) on the London Stock Exchange (Formally "An issuer whose transferable securities are admitted to trading on a UK regulated market". In the UK, "issuer" and "regulated market" have the same meaning as in Part 6 of the Financial Services and Markets Act 2000.); Credit institutions (UK banks and building societies, and any other UK credit institutions authorised by the Bank of England); Insurance undertakings authorised by the Bank of England and required to comply with the Solvency II Directive.

Moving to a supervisor-led approach also has the benefit of enabling accountancy responsibilities to be more seamlessly included within our existing remit and workload on creation of ARGA. Many of the areas we will cover in our supervisory activities will be equally relevant to the accountancy as well as the audit regulatory activities of the bodies.

4. Oversight of RSBs and RQBs

Our oversight approach



Our oversight activities take a holistic view of the professional bodies. We consider the membership journey from student through to conclusion of full membership, and each RSB's approach to the supervision of firms and governance of its audit regulatory functions. This enables us to draw a conclusion as to how it complies with both the requirements of the Act for continued recognition as an RSB and/or RQB, and whether the RSBs have complied with the Delegation Agreement requirements.

Our oversight work combines both, carrying out new reviews into the bodies' statutory and delegated responsibilities and following up on open requirements and recommendations from previous years to evaluate progress and ensure changes are being implemented within set timeframes.

We were able to do more in-person monitoring this year. We continue to find that a proportionate combination of remote and onsite oversight work produces the most effective outcomes.

The student member:

Schedule 11 of the Act sets out the requirements that professional bodies must meet to be an RQB.

These requirements fall into three main areas:

- Registering students and tracking their progress.
- Administering examinations (including the granting of exemptions to students whose university degree or other qualification is of equivalent standard to that delivered by an RQB).
- Ensuring appropriate practical training is given to students.

The authorised individual:

In respect of full members of an RSB, our oversight activities include the awarding of RI status and the necessary CPD, together with discipline and enforcement procedures.

The registered firm:

We oversee the RSBs' supervision of audit firms in respect of their registration as statutory auditors, the monitoring of audit quality delivered, and discipline and enforcement as they apply to firms.

The professional body:

This year, at an organisational level we focused on governance and leadership using a risk-based approach, inspecting the bodies' governance arrangements for audit regulatory functions. Next year we will focus inter alia on their risk management arrangements.

a. The student member

Overview

For this year's RQB oversight work, we focussed on the following areas:

- the use of technology in the delivery of the examinations.
- commencing a project to consider the future of assessment methodologies used by the bodies.
- performing follow up work on the marking of examinations including the ACCA psychometric adjustment.
- reviewing the education aspect of the professional bodies' risk registers.
- considering how the bodies are addressing climate change in respect of their educational remit.

Key observations

The use of technology to deliver examinations

All RQBs deliver their examinations using technology. The purpose of our review was to ensure that the delivery mechanisms for examinations are fit for purpose. We are satisfied with the current mechanisms used by the bodies.

As noted in the Key themes in section 3, we are working closely with the RQBs to ensure their processes remain robust and they remain abreast of new technologies, including AI, that could soon have an impact on examinations.

Exam cheating review

During 2022, several overseas firms had been sanctioned by regulators regarding cheating in exams.¹⁶ We wrote to the Chief Executive Officers (CEOs) of all Tier 1¹⁷ audit firms and the CEOs of all RQBs requiring them to provide details of the controls they had in place to ensure the integrity of examinations and testing of students and members. We asked them to set out the preventative and detective controls they had in place to ensure these types of incidents do not happen in the UK, and how they obtained assurance of the controls' effectiveness.

The responses demonstrated a variety of controls across all steps of holding and marking examinations from examination design to detection. Examples of these controls are:

- Design: Robust review processes to ensure the overall quality of the examinations.
- Regulation: Students are clear on exam rules including expected behaviours and the regulations are clear that a breach may lead to disciplinary action.
- Delivery: Robust invigilation for both online and in-person exams.
- Marking: Robust processes where examination panels confirm results and review any issues or concerns raised.
- Detection: Efficient software is used that flags suspicious activities, such as plagiarism or collusion.

We set out our findings in letters to the Chief Executives at each RQB.¹⁸ At two RQBs it was noted that there was the potential for organisations employing students studying for the audit qualification to become involved in the delivery of professional examinations. In both instances there was no current risk to the audit qualifications.

In one instance there was a possibility for employers to register as an examination centre, but our review found that no employers had done this. In the other, an option was available to students to sit exams at their employers' premises, but no students had chosen to sit exams this way. Both RQBs agreed to change their processes to remove any potential risk.

In 2022, the FRC started a project to gain an understanding of the potential changes to assessment methodologies that the professional bodies may implement in the future. This included the integrity of assessments both in terms of preventing and detecting cheating. The project also considers the impact of assessment methodologies on the professional bodies' exemption policies. We met with all professional bodies and a group of academics to discuss their current approach, and the advantages and disadvantages of other assessment methodologies.

¹⁶ [FRC seeks assurances from audit firms and professional bodies on exams cheating](#)

¹⁷ Audit firms with the largest share of the UK PIE and Major Local Audit markets

¹⁸ [Exam-Cheating-Review-letter](#)

Authorised Training Employer (ATE) visits

In 2021/22 we reported that the ICAEW had a backlog of 727 visits to approved training employers. 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. Work experience is an essential element of student training. It requires the active involvement of employers, students and professional bodies. A lack of monitoring visits means that the professional bodies do not gain the assurance they need that the work experience provided is of a sufficiently high standard and are unable to take timely remedial action if there are shortcomings. This increases the risk that students have not gained the skills they need by the time they enter an increasingly demanding profession.

The ICAEW provided the FRC with a plan to complete all outstanding visits within three years. The FRC has been monitoring progress against this plan. The ICAEW has made considerable progress to address the backlog of ATE visits. However, our previous recommendation to the ICAEW remains open until the backlog is cleared. As of 31 December 2022, 249 visits remain outstanding. Of those, 91 are in progress.

Climate change and sustainability

We reviewed the bodies' syllabuses and practical experience requirements to identify evidence of sustainability, climate change and Environmental, Social and Governance (ESG) considerations.

The bodies continue to embed sustainable initiatives in their education processes. Examples of this are:

- The ACCA continues to embed sustainable initiatives in its education processes through using e-assessments, which has reduced its carbon footprint through the elimination of paper-based exams and scripts. Approved Employer submissions and reviews are completed online, which reduces travel.
- ICAS requires its students to demonstrate a competency related to sustainability. ICAS is also planning to update the competency requirements to improve the integration of climate change and sustainability. The updated competency will align with the Global Accounting Alliance's framework.
- ICAI has content on ESG considerations that students may be examined on. Under the EU's Corporate Sustainability Reporting Directive, which comes into effect on 1 January 2024, students will be asked to confirm their practical experience exposure to sustainability and climate change.
- The ICAEW has introduced a Sustainability Certificate which provides CPD opportunities and is described as equipping accountants and finance professionals with practical knowledge and skills to address challenges relating to sustainability reporting, climate change and ESG.

As ESG reporting becomes more important, auditors must be equipped with the necessary knowledge and skills to carry out effective audits and contribute to understanding and combatting climate change.

b. The authorised individual

Overview

To assess the RSBs' registration procedures for individuals, we tested a sample of files, including applications for new RIs and KAPs, and the action taken by RSBs when individuals had signed audit reports without authorisation.

For CPD, we selected samples of declarations made within a set period to consider the bodies' review and action taken. We also tested the effectiveness of the RSBs' enforcement processes and procedures by reviewing a sample of enforcement investigations closed in 2022.

Key observations

Registration of RIs

We were largely content with the RSBs' approach to registering individuals to become RIs. We reviewed several new application files across all RSBs and found that for the most part, applications received the appropriate level of scrutiny and rigour.

Practical experience is an essential component of developing the necessary skills and knowledge to carry out the RI role responsibility effectively, and we expect that RSBs make a proportionate assessment of an applicant's experience when deciding whether to grant an application. We made a requirement to ICAI after we reviewed one file where we felt the scrutiny and assessment of an applicant's experience had not been carried out effectively.

Communicating with RIs on CPD

The ICAEW has worked to significantly improve its CPD review process over the last two years and we have closed five requirements and recommendations this year. There are still areas where enhancements are needed, and we have made three new recommendations:

- Ensuring that feedback provided to RIs provides clear guidance on the steps that the RI should take to address any shortfalls noted in their CPD following a review. To ensure the highest levels of audit quality, it is imperative that RSBs help RIs to understand their failings or help to improve their CPD for their continuing competence.
- Asking RIs to complete CPD records in advance of an inspection visit to improve the efficiency and effectiveness of the ICAEW review. We consider that the use of a standard form would provide the basis for a consistent approach and would benefit both ICAEW and its members.
- In our 2021 review, we noted that several RIs did not reply to requests to submit their declarations in a timely manner. We have recommended that the ICAEW's CPD team should issue guidelines to members identifying their CPD requirements and the consequences of not replying to a CPD request by the required deadline. This should improve the response rate for declarations, enabling the ICAEW to complete CPD reviews more effectively.

The ICAEW has two requirements, and three recommendations open from previous years, which all relate to the strengthening of its CPD process. We will continue to work closely with them to ensure these are delivered to a high standard.

Strengthening internal CPD training

We have not made any new findings at the ACCA this year, but three recommendations remain open. The ACCA must improve on feedback given to practising certificate and audit qualification (PDAQ) holders following reviews to ensure the continuing competence and quality of individuals signing audits.

Staff training is vital to ensure PDAQ holders have complied with their CPD requirements, and we again found instances of ACCA staff requiring urgent training to enable them to carry out CPD assessments competently. The ACCA has a responsibility to continuously train and develop its staff so that they have a clear understanding of CPD requirements and supplementary guidelines.

The ACCA's Professional Development team recognised our findings, and we also acknowledge that some of the examples we found were prior to the ACCA's training taking place. This was evidenced in the additional five files reviewed, which were of a better standard and provided assurances of complete reviews. However, given earlier findings, the ACCA needs to continue to provide regular training to its staff so that reviews are consistently effective.

Firm-wide CPD procedures at PIE audit firms

ICAS must update its procedure manuals to include CPD as part of its firm-wide reviews to fulfil its oversight responsibilities. Where ICAS wishes to rely on work performed by FRC in relation to CPD at PIE audit firms, it must check that the work performed by FRC in the relevant period is sufficient to cover ICAS's responsibilities under the Delegation Agreement.

Implementation of Irish Auditing & Accounting Supervisory Authority's (IAASA)¹⁹ CPD guidelines

CPD is the foundation of good audit work and audit firms have a responsibility under the Audit Regulations to train and develop their staff applying CPD rules. RIs must carry out CPD that develops and maintains competencies that enable them to demonstrate the achievements of the learning outcomes listed in International Education Standard (IES) 8.

As it is not practical to have one set of guidance for Republic of Ireland and another for UK, ICAI confirmed it will apply IAASA's guidance for UK auditors. When implementing IAASA's guidelines, ICAI must review and update its audit procedure manuals to address the need to review a sample of PIE and non-PIE RIs at UK PIE audit firms. We also require ICAI to review a firm's firm-wide procedures where necessary and highlight instances where there is a lack of audit related CPD via its reporting mechanism.

¹⁹ [Guidelines for the RABs on the regulation, monitoring and enforcement of continuing education for statutory auditors](#)

From 1 January 2023, all CPD reviews of RIs will be conducted by ICAI's audit monitoring team. We will liaise with ICAI throughout 2023 to ensure that its new policies and procedures comply with the requirements of the Delegation Agreement and that the changes cover CPD of UK statutory auditors.

c. The registered firm

Overview

To assess the implementation of registration procedures for firms, we tested a sample of files, including applications for authorisation, local audit, cessation of firms, dispensations, and a review of action taken on a firm's registration following an adverse audit monitoring visit.

Monitoring the quality of statutory audits outside the scope of the FRC's Audit Quality Review (AQR) inspections is delegated to the RSBs under delegation agreements. We supervise the RSBs to ensure that the monitoring work they carry out on our behalf continues to promote improvement to the quality of auditing in the UK.

In 2022 we reviewed audit quality monitoring inspections at the RSBs using a combination of onsite visits and desktop reviews. After the end of the transition period for the UK leaving the European on 31 December 2020, the relationship between the UK and ROI changed. Starting from 1 January 2021, for oversight visit shadowing, we were unable to obtain access to UK audit files inspected by ICAI in ROI. The matter was resolved in July 2022, when IAASA confirmed that FRC could observe inspections of audits of non-PIE UK entities with Irish auditors.

To test the effectiveness of the RSBs' enforcement processes and procedures we reviewed closed enforcement investigations. The sample of cases selected was closed in 2022.

Key observations

Registration and enforcement of audit firms remains robust

We are satisfied that the RSBs' registration processes continue to strike a proportionate approach in collecting sufficient information to determine whether a firm has met the eligibility requirements for registration. We are also pleased to note that decision making periods remain reasonable after receipt of a complete application.

We regularly liaise with all the bodies who provide updates on complex or unusual applications or queries they have received. In 2022 we saw a slight increase in the number of applications received from firms with private equity involvement.

We made no adverse findings in respects of the RSBs' enforcement work and are satisfied that the files we reviewed were managed properly with proportionate outcomes reached to uphold the standards of the audit profession and protect the public.

Greater urgency required to implement historic audit monitoring requirements and recommendations at ACCA and ICAI

Both ACCA and ICAI have several open requirements and recommendations that have been in place for some time (see [Appendix](#) below for further detail) and we were not satisfied with progress made in 2022. Whilst we received sufficient evidence to close two prior year requirements at each body, we expect to see greater progress on implementation of the remaining requirements in 2023 and will closely monitor progress throughout the year.

Compliance with the statutory monitoring visit cycle

We are content that all RSBs have complied with statutory monitoring visit cycle requirements. ICAEW outsourced staff to both ICAS and ICAI to conduct some visits to alleviate pressures caused by resourcing constraints and ensure that statutory obligations could be met. It is positive to see the RSBs working collaboratively in this way, but both ICAI and ICAS should have clear objectives backed up by an action plan to be self-sufficient. Both ICAI and ICAS have confirmed that resourcing will continue to be a priority in 2023.

Insufficient documentation of scoping of reviews and key judgements made by inspectors

At both ICAEW and ICAS we noted instances where the standard of documentation on workpapers was not sufficient to enable proper internal or external review of the completeness of the work performed by the inspector and their conclusions reached on that work.

It is imperative that documentation is sufficient to enable a reviewer, whether as part of an internal quality review or an FRC inspection, to understand and assess the scoping of the review, the extent of the audit work performed by the firm, and an RSB's conclusions on the quality of the audit work and its judgements on file grades and overall outcomes. We have made requirements to reflect this and are working proactively with each body to ensure that our requirements are addressed in a timely manner.

Robust whole firm procedures

Whole firm procedures refer to the system of internal quality control at an audit firm. Following the review of ICAEW's monitoring visit at a small firm, we have issued a requirement for ICAEW to increase the robustness of their whole firm procedures by substantiating oral enquiries with a review of evidence in key areas.

Any concerns identified in respect of the whole firm procedures should be robustly and specifically communicated to the audit firm, so that there is no doubt as to what improvement is required by the firm. This is key for ensuring high standards of audit quality.

As a result of our requirement, ICAEW will be piloting a new approach to the monitoring of whole firm arrangements at the larger audit firms later in 2023.

Insufficient challenge of auditors

We noted several instances of insufficient challenge of auditors' work by ICAS, including what we perceived to be an over-reliance on management representations. We issued a new requirement to ICAS to update its procedures and the guidance issued to reviewers to ensure they actively and consistently challenge the audit firm, and that deficiencies identified are appropriately reflected in ICAS's conclusions on compliance with the Audit Regulations and in the file and overall gradings.

ICAS considers that the issues relate to a lack of documentation rather than failing to sufficiently challenge auditors' work, and the improvements it intends to make in this area will demonstrate this.

Assessment of non-compliance with Audit Regulations and overall grade

Whilst reviewing an audit monitoring file at ICAS, we noted instances where it was not clear why it had assessed an issue as 'needs improvement' rather than as a breach of the applicable Audit Regulation. We issued a new requirement to ICAS to review its approach to assessing compliance with the Audit Regulations to ensure matters of significance are properly considered in determining whether a breach has occurred. We expect RSBs to take a robust approach to non-compliance and ensure that breaches are highlighted and recorded appropriately.

Oversight of Local Audit

The ICAEW is the only RSB for local audit. Two recommendations made to the ICAEW last year have been closed as we are content that changes have been embedded into their ongoing processes.

We are satisfied that the Chartered Institute of Public Finance and Accountancy (CIPFA) continues to meet the recognition criteria as an RQB for local audit.

The local audit sector is in crisis with unprecedented delays in the delivery of audit opinions. Our oversight of the responsibilities of ICAEW and CIPFA is limited to their role as RSB/RQBs. These roles have neither contributed to, nor can resolve on their own, the current pressures in the local audit market.

In spring 2023, the FRC entered a Memorandum of Understanding²⁰ with DLUHC to become the 'shadow' system leader for local audit until the establishment of ARGAs. To fulfil this role the FRC has five areas of responsibility:

1. Lead a coherent and coordinated response to challenges arising across the system.
2. Facilitate stronger governance across the local audit framework.
3. Lead work to improve competition, bolster capability and market supply.
4. Oversee the entire quality framework for local audit.
5. Report on the local audit system.

²⁰ [MoU between FRC and DLUHC](#)

The MoU does not alter or enhance the existing statutory duties of either party. DLUHC will remain responsible for local government reporting requirements, the local government accountability framework, adherence to the Best Value Duty, stewardship and policy decisions. The FRC will have no additional statutory powers or decision-making authority. The shadow period will enable an assessment of how system leader arrangements work in practice and will be reviewed in 2024.

As incoming shadow system leader for local audit, we will work closely with the ICAEW and CIPFA to ensure we can produce a coherent and coordinated response to the significant and well publicised challenges arising across the system, and lead on making improvements in the areas we are responsible for.

Assessing RSB monitoring grades

The robustness and consistency of the RSBs' approach to grading audit quality monitoring reviews is vital in promoting audit quality. Our oversight work this year focused on:

- Comparing file grades given by each RSB and the FRC's AQR team to files reviewed during inspections in 2019-2021.
- Comparing visit outcome grades given by each RSB in 2019-2021.
- Reviewing a sample of RSB file grades (by assessing query logs and file grade justifications) to establish whether the grade given by the RSB was consistent with that which would have been awarded by AQR in the circumstances as documented by the RSB.
- Comparing follow-up measures for unsatisfactory visit outcomes among RSBs.

In most cases, grades awarded by the RSBs and the FRC's AQR process were found to be consistent. However, we noted some areas where improvements could be made, and these were fed back to the RSBs to promote continuous improvement. We will continue to work with the RSBs to promote consistency of grading, messaging and consequence on completion of audit quality monitoring inspections at registered firms.

d. The professional body

Overview

As part of our work in this area we observed the operation of relevant committees and regulatory boards.

Key observations

ICAEW governance changes

For some time, the ICAEW has been debating reform of its governance arrangements. This has culminated in a major review of its governance structure to ensure that the framework for ICAEW's decision-making is fit for purpose and in line with current expectations of good governance. Good governance is not 'one size fits all.' However, to demonstrate its

integrity and avoid reputational risk, the ICAEW should draw upon the principles of good governance, such as independence, transparency and accountability, and make it fit in the context of a professional body.

Ultimate decision making and accountability must lie with a body that is competent and has the authority to make decisions and is sufficiently agile and strategic to do so. Significant progress has been made, and positive changes such as the introduction of an independent ICAEW Board Chair, the creation of a Board Nomination Committee and the development of a skills and competencies framework for the Board have been approved by Council. We expect to see an implementation plan in place imminently which will effect these changes on a timely basis. Whilst we welcome the decisions that have now been concluded, the time taken to do so has been too long.

Notwithstanding these changes, the Council has a valuable role in promoting and harnessing the skills and expertise of the profession but should do so whilst ensuring fair representation of all interested parties and relevant communities. It is the FRC's view that governance changes at the ICAEW have not yet gone far enough. An ambitious timetable is now required for consideration and reform of the size, composition and function of the Council.

IT infrastructure

An efficient IT infrastructure is critical for a regulator because it enables the organisation to perform its functions effectively and efficiently. Each of the bodies are at different stages of reviewing and implementing improvements to their IT framework and we have engaged with them to ensure any updates are aligned to regulatory requirements and standards, and that it is robust enough to support the RSB's operational activities. Several errors have been noted in the Joint Audit Register through 2022 attributed to defects in the ICAEW's new IT system. It is imperative that the ICAEW dedicates sufficient resource to resolve these implementation issues as a matter of priority.

Diversity and inclusion

Diversity in governance and leadership is essential for creating more equitable, inclusive, and effective decision-making processes that benefit the audit profession. Based on the evidence that we reviewed this year, we are satisfied that all bodies are taking positive steps to embed practices to promote diversity and inclusion in their governance boards and committees. The bodies have tangible measures in place. They have identified the areas in which they want to improve their diversity and have shared with us the next steps they plan to take to achieve this.

Climate change

As in previous sections, we have underlined the need for climate change and ESG to be embedded in the fabric of governance. We have reviewed terms of reference and supporting documentation from various boards and committees at the bodies and are satisfied they all have structures to ensure that climate risks and opportunities are understood, managed and reported upon.

5. Actuarial oversight

Our oversight approach

Our oversight activities are similar to those carried out for the oversight of statutory audit. For actuarial oversight, with regard to the public interest, we review the governance of Institute and Faculty of Actuaries' (IFoA) regulatory functions and the regulatory aspects of the examination and admissions framework. This enables us to draw a conclusion as to how it complies with the requirements of the MoU. We split our focus into three broad categories: pre-qualified member; qualified and affiliate; and governance and leadership. Although we made five new recommendations (detailed below), based on the oversight activities undertaken, we found no evidence to indicate that the IFoA's regulatory framework was not effectively implemented during 2022.

a. The pre-qualified member

For this report, the pre-qualified member is an IFoA member, participating in any of its exam processes, regardless of its IFoA membership status.

These members can apply for an exam exemption if they have completed an IFoA accredited university course or module or hold a recognised qualification with another professional body. We reviewed the current process and procedures followed by the IFoA when it assesses a university for accreditation and consider that the IFoA obtained appropriate information from the universities during this process. We have raised a recommendation that the IFoA fully documents the process and procedures used to accredit universities for exemptions.

The IFoA is also implementing a new online examination delivery solution. We consider its tender and implementation plans to be suitable, and we will continue to monitor the progress made.

b. The qualified member and affiliate

Outside of the pre-qualified group, there are several types of IFoA membership. In this report, when we refer to a 'qualified member and affiliates', we are referring to: Associate, Affiliate²¹; Fellow; and Certified Actuarial Analyst. As part of our oversight activities, our considerations included, but were not limited to:

- **The awarding of Practising Certificates (PCs):** With the new PC Scheme in place since December 2022, we will be reviewing the new applications made going forward.
- **The IFoA's CPD frameworks including Reflective Practice Discussions (RPD):** The IFoA has moved away from compliance testing. The regulatory intention is that RPDs will enhance the quality of their work in the public interest. As the nature of actuarial work is constantly evolving, the IFoA is open to further amendments to its processes

21. Affiliate members joining on or after 27th January 2021 need not comply with relevant regulatory requirements (for example CPD). Please see the IFoA website for more information. https://www.actuaries.org.uk/system/files/field/document/20_12_22_Affiliate_Terms_and_Conditions_final.pdf

in areas such as risk selection and the declaration. We will consider the outcome of the Regulatory Board's discussion of its post implementation review in July 2023.

- **The assessment of the Quality Assurance Scheme (QAS):** This year we made three recommendations relating to: the shadowing of the Independent Assessor; the consideration of incorporating sustainability requirements into QAS; and the review of the QAS CPD requirements to ensure they are the equivalent standard as the IFoA CPD requirements.
- **Enforcement action taken through the Disciplinary Scheme:** This year the new Disciplinary Scheme and supporting regulations (to be implemented later this year) have been considered. Consequently, we are satisfied that the three prior recommendations relating to specific amendments of the IFoA's Disciplinary Scheme can be closed.

c. IFoA

At an organisational level, we oversee the governance arrangements at the IFoA over its regulatory functions. The FRC observed one Regulatory Board meeting in February 2023 and reviewed the agenda and minutes of the others.

We note board and committee members declare any conflict of interest at the start of each meeting. We observed that there is no bespoke conflict of interest policy in place for QAS team members over and above the IFoA's general policy and guidance. That said, those involved with the QAS have good governance knowledge and experience, which, taken together with Regulatory Board issued guidance, standard board and committee obligations, and the volunteer information pack available on the issue reduces the likelihood of an actual or potential conflict of interest. Similar observations were made regarding the exemptions team. We have raised a recommendation to address this point.

The FRC sought evidence on how the IFoA is promoting diversity and inclusion in its governance boards and committees. The IFoA has a clear diversity strategy, and its Diversity Action Group alongside the Executive team are responsible for its implementation. The Diversity Action Group reports to the Member Experience Committee, which reports to the Management Board. Based on the evidence reviewed, we were satisfied that the IFoA was taking appropriate steps to embed practices to promote diversity and inclusion in its governance boards and committees.

In addition, we sought evidence that climate risks, decisions and actions were actively being discussed. The IFoA has a Sustainability Board. This board comprises of senior volunteer actuaries, whose experience and practice areas vary. It provides expertise and insights to the IFoA's Council and other boards on climate change and sustainability matters. The FRC is satisfied that the IFoA has implemented board and committee structures to ensure that climate risks and opportunities are understood, managed and reported upon.

The FRC notes the recent statements about ongoing governance reform at the IFoA and is monitoring closely.

6. Accountancy oversight

Currently the FRC's oversight work specific to accountancy relates to handling complaints from individuals who are dissatisfied with the way in which a complaint made to one of the Consultative Committee of Accountancy Bodies (CCAB)²² or the Chartered Institute of Management Accountants²³ (CIMA) 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.

As noted at the start of this report, the Government confirmed that ARGA's remit will include all relevant professional bodies whose members are required to hold professional-level accountancy qualifications. ARGA will monitor and review the regulation of the bodies' members; and have powers to require them to take specific actions where significant public interest concerns are identified.

There has been no increase in complaints received about the professional bodies from the previous year. Most complaints received were regarding the way in which a professional body dealt with a complaint about one of its members, or from students of the bodies, regarding examination and qualification processes.

In 2022/23 we received **44** complaints about the professional accountancy and actuarial bodies that we oversee. In addition, there were **four** complaints ongoing from the prior year. This resulted in one new recommendation being made to the ICAEW following a complaint from a student member.

Having reviewed the ICAEW's handling of the complaint, we are satisfied that the matter had been dealt with efficiently and in line with the ICAEW's processes, but we recommended that the ICAEW improved the clarity of information provided to students about when it would be appropriate to escalate a complaint to the FRC. The ICAEW has taken action to inform individuals complaining about audit/accountancy qualification and/or examination issues of their right to complain to the FRC, in writing, at the conclusion of a complaint, where necessary.

²² CCAB

²³ CIMA

Appendix: Open requirements and significant recommendations

Requirements: Are only made to an RSB when we consider it is not fully meeting the terms of a Delegation Agreement requirement.

Recommendations: Are actions we recommend to a professional body to improve its performance of a regulatory process or task. They are categorised as low, medium and high priority. We have only included those recommendations that we consider to be high priority.

RSB and RQB

Body	Year made	Type	Detail	Status
The student member				
ICAEW	2021	Recommendation	ICAEW should set out and implement a plan which will enable it to address the backlog of firm visits, as well as completing the visits required in the normal review cycle. This plan must take a risk-based approach.	On track This recommendation should be implemented within three years of being made.
The authorised individual				
ACCA	2021	Recommendation	ACCA should have a formal procedure note documenting the process for removing the membership of a PCAQ holder.	On track This recommendation should be implemented within three years of being made.
	2021	Recommendation	All material used to train Professional Development team staff should be reviewed to ensure it is fit for purpose.	On track This recommendation should be implemented within three years of being made.
	2022	Requirement	ACCA should implement a process to periodically audit a selection of closed practising certificate and audit qualification (PCAQ) and firm's auditing certificate (FAC) applications.	On track This requirement should be implemented within twelve months of being made.

Body	Year made	Type	Detail	Status
The authorised individual				
ICAEW	2020	Requirement	ICAEW must have effective procedures to carry out CPD compliance monitoring over all its RIs.	Partially implemented ICAEW have implemented a new approach from January 2022. We will review further samples in 2023 to consider whether the requirement has been successfully implemented.
	2020	Requirement	To satisfy the requirements of the Delegation Agreement, ICAEW must review all parts of CPD at all firms. Where that has not happened, ICAEW must apply additional procedures to rectify any gaps in their monitoring.	Partially implemented This requirement has been partially implemented with further FRC review taking place in 2023.
	2020	Recommendation	ICAEW reviewers should complete the documentation of their CPD reviews in a clear and consistent manner to support the conclusions reached.	On track This recommendation should be implemented within three years of being made.
ICAI	2022	Requirement	ICAI must update its procedures to include firmwide procedures and CPD compliance when carrying out monitoring, for example, reviewing a sample of PIE and non-PIE RIs at PIE audit firms.	On track This requirement should be implemented within twelve months of being made.
	2022	Requirement	When considering RI applications, ICAI (both the Professional Authorisations team and Quality Assurance Committee) must adequately assess an applicant's audit experience to ensure their suitability for RI status.	On track This requirement should be implemented within twelve months of being made.

Body	Year made	Type	Detail	Status
The registered firm				
ICAS	2022	Requirement	ICAS must update its procedures when carrying out CPD compliance monitoring over all its RIs at PIE audit firms.	On track This requirement should be implemented within twelve months of being made.
ACCA	2020	Requirement	To meet the principles of the Delegation Agreement, ACCA should improve the quality and extent of evidence that Senior Compliance Officers (SCOs) are required to record during monitoring visits.	Overdue This requirement should have been implemented within twelve months of being made and is now well overdue. Progress with this remains ongoing. We will seek evidence in the 2023/24 review cycle of the progress of changes being implemented.
	2021	Requirement	The SCO must robustly challenge the audit team and ensure that any deficiencies identified are appropriately reflected in the file grading. ACCA should also implement an SCO peer review process to ensure identified deficiencies are discussed and classified.	Partially implemented We have noted some progress seen in more recent ongoing reviews, where we have observed more robust challenge from the SCO in respect of deficiencies identified in the audit file. We will look for further evidence of this applying consistently in the 2023/24 review cycle.
	2021	Requirement	Review and update SCO's guidance.	Overdue This requirement should have been implemented within 12 months of being made and is now overdue. We are monitoring closely the progress made by ACCA in respect of this requirement.

Body	Year made	Type	Detail	Status
The registered firm				
ICAEW	2022	Requirement	Audit File Review Checklists should include the reasons for selection of areas of the audit file to review, a record of the work inspected, and judgements applied by the inspectors in sufficient detail that is proportionate to the size, nature and complexity of the audit files reviewed.	On track This requirement should be implemented within 12 months of being made.
	2022	Requirement	During audit inspections, ICAEW should review all relevant elements of ISQC1/ISQM1.	On track This requirement should be implemented within 12 months of being made.
ICAI	2022	Requirement	We require ICAI to consider how significant review findings and conclusions as reported to the QAC and the RI are evidenced.	On track This requirement should be implemented within 12 months of being made.
	2021	Requirement	We require the support provided to ICAI reviewers and management through internal training, checklists and accompanying guidance, and supervision and review to be enhanced. This is to ensure the absence of appropriate levels of professional scepticism applied and documented in the performance of an audit is robustly challenged as part of the ICAI monitoring process.	On track ICAI was provided with an extension to the 12 month implementation period as the files we reviewed in 2022 were completed by ICAI before the requirements were made. We will be monitoring the progress on this requirement in 2023/24 cycle.
	2021	Requirement	We require the QAC to review the effectiveness of the internal controls over the quality of conclusions contained in Quality Review Reports to ensure that ICAI inspectors robustly challenge audit firms and appropriately conclude audit monitoring visits.	On track We carried out our first reviews in early 2023 and will continue monitoring progress against this requirement.

Body	Year made	Type	Detail	Status
The registered firm				
ICAS	2022	Requirement	<p>ICAS should improve the extent of its documentation of the audits it inspects. The documentation needs to be sufficient to enable a reviewer, whether as part of ICAS' internal quality review or an FRC inspection, to understand and assess the scoping of the review, the extent of the audit work performed by the firm, and ICAS' conclusions on the quality of the audit work and its judgements on file grades and overall outcomes.</p> <p>This requirement should be implemented within 12 months of it being made.</p>	<p>On track</p> <p>This requirement should be implemented within 12 months of being made.</p>
	2022	Requirement	<p>ICAS should update its procedures and the guidance issued to reviewers to ensure they robustly and consistently challenge the audit firm, and that deficiencies identified are appropriately reflected in ICAS' conclusions on compliance with the Audit Regulations and in the file and overall gradings.</p>	<p>On track</p> <p>This requirement should be implemented within 12 months of being made.</p>

Body	Year made	Type	Detail	Status
The registered firm				
ICAS	2022	Requirement	<p>ICAS should review its approach to assessing compliance with the Audit Regulations to ensure matters of significance are properly considered in determining whether a breach has occurred. ICAS should also review its approach to determining overall visit grades, ensuring there is clear definition at the grade boundaries and that applicable guidance encourages effective consideration of all the factors present, to ensure that the approach is applied consistently.</p>	<p>On track</p> <p>This requirement should be implemented within 12 months of being made.</p>

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