



Financial Reporting Council

Report of the Independent Supervisor on Auditors General Pursuant to Sections 1231(1) and 1231(2) of the Companies Act 2006

HC 353

November 2023



The Financial Reporting Council

Report of the Independent Supervisor on Auditors General

Presented to Parliament pursuant to section 1231(3) of the Companies Act 2006.

Also presented to:

- The Secretary of State;
- The First Minister in Scotland;
- The First Minister and Deputy First Minister in Northern Ireland; and
- The First Minister for Wales and laid before the National Assembly for Wales pursuant to section 1231(3A) of the Companies Act 2006.

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Report of the Independent Supervisor on Auditors General

1 Introduction

- 1.1 The Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc.) Order 2012¹ appoints the Financial Reporting Council (FRC) as the Independent Supervisor of Auditors General, which includes the Comptroller and Auditor General (C&AG) and the Auditors General of Scotland and Wales and the Comptroller and Auditor General for Northern Ireland, in respect of their work as statutory auditors of companies under the Companies Act 2006 (the 'Companies Act', or 'the Act').
- 1.2 Section 1231 of the Act requires the Independent Supervisor to report on the discharge of its functions at least once in each calendar year to the Secretary of State, the First Minister of Scotland, the First Minister and the Deputy First Minister in Northern Ireland, and to the First Minister for Wales. This report also meets the statutory reporting requirements set out in the legislation².
- 1.3 Auditors General are eligible for appointment as the statutory auditors of companies under section 1226 of the Act.
- 1.4 An Auditor General who undertakes statutory audits must comply with the Independent Supervisor's 'supervision arrangements' (see section 2 below), which include arrangements for the monitoring and inspection of the performance of that audit work. To date, only the C&AG undertakes audits under the Act.
- 1.5 The year to 31 March 2022 was the fourteenth year in respect of which the C&AG undertook statutory audit work, auditing the accounts of 70 companies. The National Audit Office ('NAO') undertakes this work on the C&AG's behalf, auditing those companies that are owned by Government Departments as well as other public bodies. The responsibilities of the Independent Supervisor do not extend to the wider work of the C&AG and the term 'statutory audit' should be read as meaning the C&AG's remit under the Act.

1 S.I. 2012/1741

2 As set out in regulation 19 of the Statutory Auditors (Amendment of Companies Act 2006 and Delegation Functions etc) Order, S.I. 2012/1741 and s.1229(5A) of the Act.

1.6 The FRC Board appoints the NAO as the Independent Auditor of the FRC³, in advance of the appointment being made on a statutory basis, and the NAO provided an audit opinion on the FRC's financial statements as at 31 March 2023 which was laid before the House of Commons. Safeguards are in place to ensure the independence of the FRC's and NAO's respective roles as Independent Supervisor of Auditors General and as the auditor of the FRC. The FRC, as Independent Supervisor, is accountable to the Secretary of State and the report of the Independent Supervisor is laid before Parliament, whilst the C&AG is accountable to Parliament through the Public Accounts Commission. FRC's operations and governance are also established to respect the statutory independence of both parties. The FRC's Audit Quality Review (AQR) Team and Professional Bodies Supervision (PBS) personnel who undertake regulatory activities in respect of the Independent Supervisor do not provide support to the delivery of the statutory audit, which is the responsibility of the FRC's Finance Team. Decisions and actions required by the FRC in respect of the NAO's annual audit of its financial statements are considered by the Audit and Risk Committee prior to any recommendations to the FRC Board, whilst the FRC's role as Independent Supervisor and recommendation of the Report of the Independent Supervisor of the C&AG to the FRC's Board are the responsibility of the FRC's Supervision Committee, prior to any recommendations to the FRC Board.

2 Supervision arrangements

2.1 Section 1229 of the Act requires the Independent Supervisor to establish supervision arrangements with respect to an Auditor General who undertakes Companies Act audit work, for:

- Determining standards relating to professional integrity and independence ('ethical' standards) and technical standards to be applied by an Auditor General and the manner in which these standards are to be applied in practice;
- Monitoring the performance of statutory audits carried out by an Auditor General; and
- Investigating and taking disciplinary action in relation to any matter arising from the performance of a statutory audit by an Auditor General.

2.2 These supervision arrangements are set out in a Statement of Arrangements and Memorandum of Understanding (MOU)⁴ between the FRC and the C&AG and include a requirement for the monitoring of the C&AG's statutory audit work by the FRC's AQR team, on behalf of the FRC as the Independent Supervisor.

3 As set out in our Annual Report for 2022/23 here - <https://www.frc.org.uk/getattachment/d518f9bf-3bee-4fcd-a078-792c103e7dc2/Financial-Reporting-Council-Annual-Report-and-Financial-Statements-for-the-year-end.pdf>

4 <https://www.frc.org.uk/getattachment/c276641b-a965-4cdd-b28d-1f12d7756ed7/Signed-St-of-Arrangement-and-MOU-230712.pdf>

3 Reporting requirements

3.1 We report, in sections (a) to (e), below in accordance with section 1231 of the Act and regulation 19 of the Statutory Auditors (Amendments of Companies Act 2006 and Delegation of Functions etc.) Order 2012⁵.

(a) Discharge by the Independent Supervisor of its supervision function

3.2 The supervision arrangements require that the C&AG and relevant NAO staff follow technical and ethical standards prescribed by the FRC when conducting statutory audits and set out the investigation and disciplinary procedures that would apply were there a need to discipline the C&AG in his/her capacity as a statutory auditor. The relevant standards are those set by the FRC for auditors as applied to the C&AG.

3.3 The supervision arrangements also require the C&AG and NAO staff to enable their performance of statutory audits to be monitored by means of inspections carried out under the supervision arrangements.

3.4 We meet periodically with the C&AG and senior staff responsible for the audit practice of the NAO on behalf of the C&AG. We have familiarised ourselves with the NAO procedures for discharging these responsibilities and keep abreast of any changes on an ongoing basis. The responsibilities of the Independent Supervisor in 2022/23 are described in sections (a) to (e) of this report. Our AQR team's inspections, described below, were completed effectively. On that basis, we consider that we have discharged our supervision function effectively.

3.5 The responsibilities of the Independent Supervisor do not extend to the wider work of the C&AG, other than in relation to statutory audit.

(b) Compliance by Auditors General with duties under the Act

3.6 As noted above, to date only the C&AG has undertaken statutory audits of companies which are within the public sector. The Auditors General of Scotland and Wales and the Comptroller and Auditor General for Northern Ireland are required to notify the Independent Supervisor if they are to undertake statutory audits of companies. No notifications have been received, and each has confirmed in writing to the FRC that they have not undertaken any statutory audits.

3.7 Our AQR team inspect each year a sample of audits performed under Companies Act 2006 and review a selection of the C&AG's policies and procedures supporting audit quality that apply to these audits. The key findings of this work are summarised for the Secretary of State in a separate report.

(c) Notification by Auditors General under section 1232 of the Act

3.8 No Auditor General was required to notify the Independent Supervisor of any other information under Section 1232 of the Act.

⁵ S.I. 2012/1741

(d) Independent Supervisor's enforcement activity

3.9 We issued no enforcement notices and made no applications for compliance orders in 2022.

3.10 The AQR inspection programme for 2022/23 was not complete at the date of this report.

(e) Account of activities relating to the Freedom of Information Act 2000

3.11 We received no requests for information under the Freedom of Information Act 2000 in our role as the Independent Supervisor.

Financial Reporting Council

29 November 2023

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