

**THE AUDITING PRACTICES BOARD – SCOPE AND AUTHORITY OF
PRONOUNCEMENTS (REVISED)**

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This statement describes the scope and authority of the Auditing Practices Board's (APB's) pronouncements applicable to engagements relating to financial periods ending on or after 15 December 2010*.

* For engagements relating to financial periods ending before 15 December 2010, see the previous edition of this Statement which is available on the APB website and is also included in the printed volume of APB's "Standards and Guidance 2009".

Introduction

1. The objectives of the Auditing Practices Board, which is a constituent body of the Financial Reporting Council¹, are to:
 - Establish Auditing Standards which set out the basic principles and essential procedures with which external auditors in the United Kingdom and the Republic of Ireland are required to comply;
 - Issue guidance on the application of Auditing Standards in particular circumstances and industries and timely guidance on new and emerging issues;
 - Establish Standards and related guidance for accountants providing assurance services where they relate to activities that are reported in the public domain, and are therefore within the “public interest”;
 - Establish Ethical Standards in relation to the independence, objectivity and integrity of external auditors and those providing assurance services;
 - Participate in the development of any legislative or regulatory initiatives which affect the conduct of auditing and assurance services, both domestically and internationally; and
 - Contribute to efforts to advance public understanding of the roles and responsibilities of external auditors and the providers of assurance services including the sponsorship of research.
2. The Auditing Practices Board discharges its responsibilities through a Board (‘the APB’), comprising individuals who are eligible for appointment as company auditors and those who are not so eligible. Those who are eligible for appointment as company auditors may not exceed 40% of the APB by number.
3. The Nomination Committee of the Financial Reporting Council appoints members of the Board.

Nature and Scope of APB Pronouncements

4. APB pronouncements include:
 - ‘Quality Control Standards’ for firms that perform audits of financial statements, reports in connection with investment circulars and other assurance engagements,
 - A framework of fundamental principles, The Auditors’ Code’ which APB expects to guide the conduct of auditors (see Appendix 2),
 - ‘Ethical and Engagement Standards’ for audits of financial statements, reports in connection with investment circulars and other assurance engagements, and
 - Guidance for auditors of financial statements, reporting accountants acting in connection with an investment circular and auditors involved in other assurance engagements.

The structure of APB pronouncements is shown in Appendix 1.

¹ Information about the Financial Reporting Council (FRC) and its structure, including its operating bodies, can be found on the FRC’s web site (www.frc.org.uk).

5. Auditors and reporting accountants should not claim compliance with APB standards unless they have complied fully with all of those standards relevant to an engagement.
6. APB Quality Control Standards and Auditing Standards for audits of financial statements include objectives for the auditor, together with requirements² and related application and other explanatory material. It is necessary to have an understanding of the entire text of a Standard, including its guidance, to understand its objectives and to apply its requirements properly. Further explanation of the scope, authority and structure of the Auditing Standards are set out in International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK and Ireland).”
7. APB engagement standards for reporting accountants acting in connection with an investment circular and auditors involved in other assurance engagements contain basic principles and essential procedures (identified in bold type lettering³) together with related guidance. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures.
8. APB Ethical Standards for Auditors and Reporting Accountants contain requirements (identified in bold type lettering) together with related guidance.
9. In 2009 APB adopted the new, clarified, International Standard on Quality Control 1 (ISQC 1) and International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board⁴ (IAASB) for application to audits of financial statements for periods ending on or after 15 December 2010. Where necessary APB has augmented the international standards with additional requirements to address specific UK and Irish legal and regulatory requirements; and additional guidance that is appropriate in the UK and Irish national legislative, cultural and business context. This additional material is clearly differentiated from the original text of the international standards by the use of grey shading. For the audit of UK and Irish groups, the group auditor needs to be satisfied that the audit of the group financial statements, on which the group auditor gives an audit opinion, is in accordance with the ISAs (UK and Ireland). APB does not require auditors of overseas components to have regard to the APB supplementary requirements and guidance material, although the group auditor may decide to refer to it in their instructions to component auditors⁵.

² The level of authority of the text in requirements paragraphs is identified by use of the term “shall” (e.g. ‘the auditor shall ...’).

³ The level of authority of the text in these paragraphs is identified by use of the expression “the auditor should ...”.

⁴ IAASB is a committee of the International Federation of Accountants (IFAC). The IAASB’s constitution and due process is described in its ‘Preface to the international standards on Quality Control, Auditing, Assurance and Related Services’.

⁵ If the auditor of an overseas component is a part of the same firm as the group auditor (i.e. the same legal entity) consideration needs to be given to whether the auditor of the overseas component has the same legal obligations as the group auditor and, therefore, is required to comply with the legal or regulatory requirements of the ISAs (UK and Ireland). If such obligations exist, consideration needs to be given to the implications for communication between the group auditor and component auditor (for example where necessary to fulfil obligations for reporting money laundering offences or reporting matters to a regulator).

10. APB has not adopted ISA 700, “Forming an Opinion and Reporting on Financial Statements,” as issued by the IAASB. APB has instead issued ISA (UK and Ireland) 700, “The Auditor’s Report on Financial Statements” which addresses the requirements of company law and also provides for a more concise auditor’s report, reflecting feedback to APB consultations. The main effect of this is that the form of UK and Ireland auditor’s reports may not be exactly aligned with the precise format of auditor’s reports required by ISA 700 issued by the IAASB. However, ISA (UK and Ireland) 700 has been designed to ensure that compliance with it will not preclude the auditor from being able to assert compliance with the ISAs issued by the IAASB⁶.
11. The ISAs and ISQC 1 as issued by the IAASB, require compliance with ‘relevant ethical requirements’ which are described, in the application material, as ordinarily comprising Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code⁷) related to an audit of financial statements together with national requirements that are more restrictive. The ISAs (UK and Ireland) and ISQC (UK and Ireland) 1 have supplementary material that makes clear that auditors in the UK and Ireland are subject to ethical requirements from two sources: the APB Ethical Standards for Auditors concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by the auditor’s relevant professional body. ISQC (UK and Ireland) 1 also has supplementary material that makes clear that the APB Ethical Standard for Reporting Accountants applies to all engagements that are subject to APB Standards for Investment Reporting and involve investment circulars in which a report from the reporting accountant is to be published.
12. APB has sought to ensure that the APB Ethical Standards for Auditors and Reporting Accountants adhere to the principles of the IFAC Code. APB is not aware of any significant instances where the relevant parts of the IFAC Code are more restrictive than the APB Ethical Standards⁸.

Standards and Guidance for Audits of Financial Statements

13. The Auditors’ Code, which is set out as Appendix 2, provides a framework of fundamental principles which encapsulate the concepts that govern the conduct of audits and underlie APB’s Ethical and Auditing Standards.
14. APB engagement standards for audits of financial statements, which comprise APB Ethical Standards for Auditors and International Standards on Auditing (UK and Ireland), apply to auditors carrying out:
 - Statutory audits of companies in accordance with the Companies Acts⁹;
 - Audits of financial statements of entities in accordance with other UK or Irish legislation e.g. building societies, credit unions, friendly societies, pension funds, charities and registered social landlords;

⁶ See ISA (UK and Ireland) 700, paragraph 5.

⁷ The IFAC Code is included in the IFAC “Handbook of International Auditing, Assurance, and Ethics Pronouncements” and can be downloaded free of charge from the publications section of the IAASB web site (www.ifac.org/IAASB).

⁸ Should auditors wish to state that an audit has been conducted in compliance with ISAs as issued by IAASB they will need to ensure that they have complied with the relevant parts of the IFAC Code.

⁹ Companies Act 2006 in the UK and the Companies Acts 1963 - 2003 in the Republic of Ireland.

- Public sector audits in the UK, including those carried out either on behalf of the national audit agencies or under contract to those agencies. (The standards governing the conduct and reporting of the audit of financial statements are a matter for the national audit agencies to determine. However, the heads of the national audit agencies¹⁰ in the UK have chosen to adopt APB’s engagement standards and Quality Control Standards for audits as the basis of their approach to the audit of financial statements);
 - Other audits performed by audit firms registered with the members of the Consultative Committee of Accountancy Bodies (CCAB)¹¹ unless the nature of the engagement requires the use of other recognised auditing standards; and
 - Other audits where audit firms not registered with members of the CCAB elect, or are required by contract, to perform the work in accordance with UK or Irish auditing standards.
15. APB also issues guidance to auditors of financial statements in the form of Practice Notes and Bulletins. Practice Notes and Bulletins are persuasive rather than prescriptive and are indicative of good practice. Practice Notes assist auditors in applying APB engagement standards to particular circumstances and industries and Bulletins provide timely guidance on new or emerging issues. Auditors should be aware of and consider Practice Notes applicable to the engagement. Auditors who do not consider and apply the guidance included in a relevant Practice Note should be prepared to explain how the basic principles and essential procedures in APB standards have been complied with.
16. APB also issues consultative documents, briefing papers and research studies to stimulate public debate and comment.

Standards and Guidance for Reporting Accountants Acting in Connection With an Investment Circular

17. APB engagement standards apply to reporting accountants when carrying out engagements involving investment circulars intended to be issued in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom or the Republic of Ireland. They comprise the APB Ethical Standard for Reporting Accountants (ESRA) and Standards for Investment Reporting (SIRs).

Statements of Standards for Reporting Accountants

18. APB also issues standards and guidance for accountants on assurance engagements closely related to an audit of the financial statements. This includes the International Standard on Reporting Engagements (ISRE) (UK and Ireland) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” ISRE (UK and Ireland) 2410 adopts the text of ISRE 2410 issued by the IAASB and, as with ISAs

¹⁰ National audit agencies in the UK are the National Audit Office (for the Comptroller and Auditor General), the Welsh Audit Office (for the Auditor General for Wales), the Audit Commission, Audit Scotland (for the Auditor General for Scotland and the Accounts Commission) and the Northern Ireland Audit Office (for the Comptroller and Auditor General (Northern Ireland)).

¹¹ Members of CCAB are The Institute of Chartered Accountants in England & Wales, The Institute of Chartered Accountants of Scotland, The Institute of Chartered Accountants in Ireland, The Association of Chartered Certified Accountants, The Chartered Institute of Management Accountants and The Chartered Institute of Public Finance and Accountancy.

(UK and Ireland), APB has added a relatively small amount of supplementary material (highlighted with grey shading) in order to clarify certain matters (for example in relation to the rules and regulations implementing the requirements of the European Transparency Directive applicable to UK and Irish listed companies) and to perpetuate previous APB guidance that remains pertinent. APB's other pronouncements on assurance engagements take the form of Bulletins (e.g. the auditor's statement on summary financial statements).

Authority of APB Pronouncements

19. In order to be eligible for appointment in the UK as auditors of companies, or of any of the other entities which require their auditors to be eligible for appointment as auditors under section 1212 of the Companies Act 2006, persons must be registered with a Recognised Supervisory Body (RSB)¹² recognised under that Act and must be eligible for appointment under the rules of that RSB. The Companies Act 2006 requires RSBs to have rules and practices as to the technical standards to be applied in company audit work and the manner in which those standards are to be applied in practice. Each RSB is also required to have arrangements in place for the effective monitoring and enforcement of compliance with those standards.
20. In the Republic of Ireland legislative requirements concerning qualifications for appointment as auditor and recognition of bodies¹³ of accountants are contained in the Companies Act, 1990 as amended by the Companies (Auditing and Accounting) Act 2003. This Act requires bodies of accountants to have satisfactory rules and practices as to technical and other standards. The Act also empowers the Irish Auditing and Accounting Supervisory Authority to revoke or suspend recognition or authorisation of a body of accountants or individual auditor.
21. The members of the CCAB have undertaken to adopt APB standards and guidance developed by APB within three months of promulgation by APB of such standards and guidance. In the Republic of Ireland, accountancy bodies which are not members of the CCAB but which are also recognised bodies for the supervision of auditors may choose to require their members to comply with APB standards.
22. Apparent failures by auditors to comply with APB standards are liable to be investigated by the relevant accountancy body. Auditors who do not comply with Auditing Standards when performing company or other audits make themselves liable to regulatory action which may include the withdrawal of registration and hence of eligibility to perform company audits.
23. All relevant APB pronouncements and in particular Auditing Standards are likely to be taken into account when the adequacy of the work of auditors is being considered in a court of law or in other contested situations.

¹² The Institute of Chartered Accountants in England & Wales, The Institute of Chartered Accountants of Scotland, The Institute of Chartered Accountants in Ireland, the Association of Authorised Public Accountants and The Association of Chartered Certified Accountants are Recognised Supervisory Bodies for the purpose of regulating auditors in the UK.

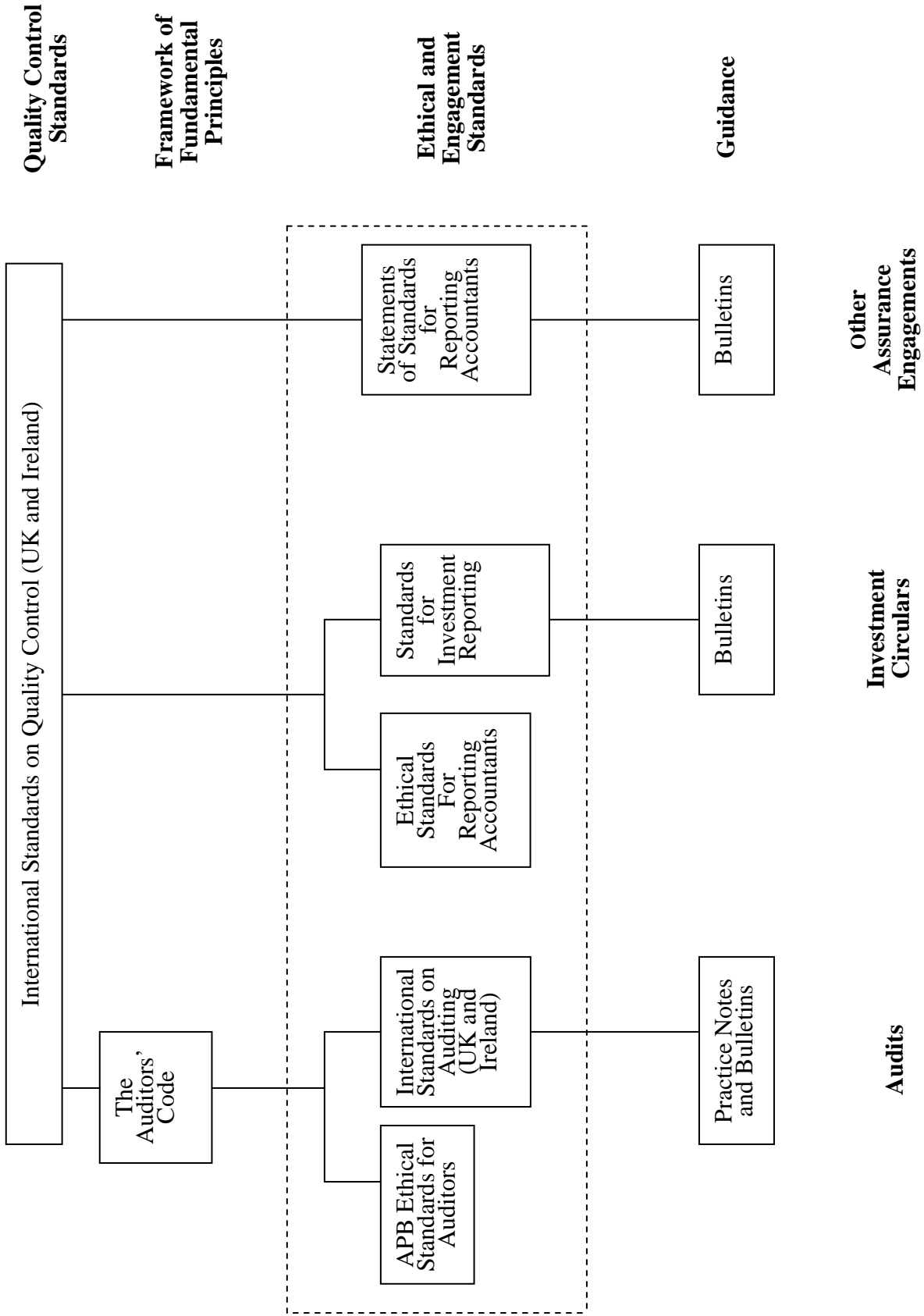
¹³ The Institute of Chartered Accountants in Ireland, the Institute of Certified Public Accountants in Ireland, the Institute of Incorporated Public Accountants, The Association of Chartered Certified Accountants, The Institute of Chartered Accountants in England and Wales and The Institute of Chartered Accountants in Scotland are "Recognised Bodies" in the Republic of Ireland.

24. The nature of APB standards and associated guidance requires professional accountants to exercise professional judgment in applying them. Where, in exceptional circumstances, auditors and reporting accountants judge it necessary to depart from a basic principle or essential procedure that is relevant in the circumstances of the engagement, the auditor or reporting accountant documents how the alternative procedures performed achieve the objective of the engagement and, unless otherwise clear, the reasons for the departure.

Development of APB Pronouncements

25. Before publishing or amending its standards or Practice Notes APB publishes an exposure draft on its website and sends a copy of the exposure draft to the members of the CCAB and to other parties.
26. APB's aim is to allow three months for representations to be made on draft standards and Practice Notes. Where the draft standards are based on international standards APB intends to co-ordinate its exposure process with that of IAASB.
27. Where exposure drafts would cause changes to be made to other previously issued publications, any such consequential changes will also be exposed for comment and published simultaneously. Representations received on exposure drafts will be given full and proper consideration by APB, and will be available for public inspection.
28. Bulletins and other publications may be developed without the full process of consultation and exposure used for APB standards and Practice Notes. However, in the development of such documents, and before publication, APB will decide the means by which it will obtain external views on them.
29. Each year APB considers its priorities and consults on its proposed work programme with interested parties.

Structure of APB Pronouncements



The Auditors' Code

Accountability	Auditors act in the interests of primary stakeholders, whilst having regard to the wider public interest. The identity of primary stakeholders is determined by reference to the statute or agreement requiring an audit: in the case of companies, the primary stakeholder is the general body of shareholders.
Integrity	Auditors act with integrity, fulfilling their responsibilities with honesty, fairness, candour, courage and confidentiality. Confidential information obtained in the course of the audit is disclosed only when required in the public interest, or by operation of law.
Objectivity and independence	Auditors are objective and provide impartial opinions unaffected by bias, prejudice, compromise and conflicts of interest. Auditors are also independent, this requires them to be free from situations and relationships which would make it probable that a reasonable and informed third party would conclude that the auditors' objectivity either is impaired or could be impaired.
Competence	Auditors act with professional skill, derived from their qualification, training and practical experience. This demands an understanding of financial reporting and business issues, together with expertise in accumulating and assessing the evidence necessary to form an opinion.
Rigour	Auditors approach their work with thoroughness and with an attitude of professional scepticism. They assess critically the information and explanations obtained in the course of their work and such additional evidence as they consider necessary for the purposes of their audit.
Judgment	Auditors apply professional judgment taking account of materiality in the context of the matter on which they are reporting.
Clear, complete and effective communication	Auditors' reports contain clear expressions of opinion and set out information necessary for a proper understanding of the opinion. Auditors communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity.
Association	Auditors allow their reports to be included in documents containing other information only if they consider that the additional information is not in conflict with the matters covered by their report and they have no cause to believe it to be misleading.
Providing value	Auditors add to the reliability and quality of financial reporting; they provide to directors and officers constructive observations arising from the audit process; and thereby contribute to the effective operation of business capital markets and the public sector.

NOTICE TO READERS

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The International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)) and International Standard on Quality Control (UK and Ireland) (ISQC (UK and Ireland)) are based on the International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) of the same titles that have been issued by the International Auditing and Assurance Standards Board (IAASB), published by the International Federation of Accountants (IFAC) in 2009, and are used with the permission of IFAC.

THE AUDITING PRACTICES BOARD

The Auditing Practices Board (APB), which is part of the Financial Reporting Council (FRC), prepares for use within the United Kingdom and the Republic of Ireland:

- Standards and guidance for auditing;
- Standards and guidance for reviews of interim financial information performed by the auditor of the entity;
- Standards and guidance for the work of reporting accountants in connection with investment circulars; and
- Standards and guidance for auditors' and reporting accountant's integrity, objectivity and independence

with the objective of enhancing public confidence in the audit process and the quality and relevance of audit services in the public interest.

The APB comprises individuals who are not eligible for appointment as company auditors, as well as those who are so eligible. Those who are eligible for appointment as company auditors may not exceed 40% of the APB by number.

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