

**THE AUDITING PRACTICES BOARD – SCOPE AND  
AUTHORITY OF PRONOUNCEMENTS (REVISED)  
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This statement, which describes the scope and authority of the Auditing Practices Board's (APB's) pronouncements, replaces a previous document of the same title which was issued in April 2003. The revised statement reflects the position of the APB at the date of issue.

## Introduction

1. The objectives of the Auditing Practices Board, which is a constituent body of the Financial Reporting Council<sup>1</sup>, 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 statutes, regulations and standards 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:

<sup>1</sup> Information about the Financial Reporting Council (FRC) and its structure, including its subsidiary bodies, can be found on the FRC’s web site ([www.frc.org.uk](http://www.frc.org.uk)).

- ‘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 which the APB expects to guide the conduct of auditors (see Appendix 2),
- ‘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.

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 and engagement standards contain basic principles and essential procedures (identified in bold type lettering<sup>2</sup>) together with related guidance in the form of explanatory and other material, including appendices. 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.
7. In order to support the international harmonisation of auditing standards APB, in 2004, decided to adopt the International Standard on Quality Control 1 (ISQC 1) and International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board<sup>3</sup> (IAASB). Where necessary APB has augmented such international standards by

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<sup>2</sup> In addition to the use of bold type lettering, the level of authority of the text in these paragraphs is identified by use of the expression “the auditor should ...”. In some of the explanatory and other material the expression “the auditor would ...” is used; the use of the word “would” in these paragraphs does not give them the same level of authority as the use of the word “should” in bold text.

<sup>3</sup> 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’.

additional standards and guidance to maintain the requirements and clarity of previous UK and Irish auditing standards. This additional material is clearly differentiated from the original text of the international standards by the use of grey shading.

8. The APB has not at this time adopted ISA 700 (Revised) “The independent auditor’s report on a complete set of general purpose financial statements” and the related conforming amendments made to ISA 200 “Objective and general principles governing an audit of financial statements” and ISA 560 “Subsequent events”. The main effect of this is that the form of UK and Ireland auditor’s reports dated on or after 31 December 2006 may not be exactly aligned with that required by ISA 700 (Revised). However, the APB believes that there are no significant differences of substance that would affect the actual performance of audits in the UK and Ireland, and accordingly that the differences do not cause audits performed in accordance with ISAs (UK and Ireland) to not comply with ISAs as issued by the IAASB.<sup>4</sup>
9. The ISAs (UK and Ireland) and ISQC 1 (UK and Ireland) require compliance with the APB’s Ethical Standards and relevant ethical pronouncements relating to the work of auditors issued by the auditor’s relevant professional body. This contrasts with the ISAs and ISQC 1 as issued by the IAASB, which refer to compliance ordinarily with Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code<sup>5</sup>) together with national requirements that are more restrictive.
10. The APB has sought to ensure that the Ethical Standards adhere to the principles of the IFAC Code<sup>6</sup>. The APB is not aware of any significant

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<sup>4</sup> The APB notes that ISA 700 (Revised) specifically recognises that national auditing standards may require using a different layout or wording for the auditor’s report. In such circumstances, ISA 700 (Revised) provides that audits can still be referred to as being conducted in accordance with ISAs if the auditor’s report includes all specified elements (and the audit complies with all the other relevant requirements of ISAs). Those elements are included in auditor’s reports prepared in compliance with ISA (UK and Ireland) 700.

<sup>5</sup> 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](http://www.ifac.org/IAASB)).

<sup>6</sup> The Ethical Standards have also been designed to implement the requirements of the EC Recommendation on “Statutory auditors’ independence in the EU: a set of fundamental principles” in the UK and Ireland.

instances where the relevant parts of the IFAC Code are more restrictive than the Ethical Standards<sup>7</sup>.

### **Standards and Guidance for Audits of Financial Statements**

11. 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 the APB's ethical and auditing standards.
12. APB engagement standards, which comprise APB Ethical Standards and International Standards on Auditing (UK and Ireland), apply to auditors carrying out:
  - Statutory audits of companies in accordance with the Companies Acts<sup>8</sup>;
  - 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;
  - 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 agencies<sup>9</sup> in the UK have chosen to adopt the 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)<sup>10</sup> unless

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<sup>7</sup> 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.

<sup>8</sup> Companies Acts 1985 and 2006 in the UK and the Companies Acts 1963 - 2003 in the Republic of Ireland

<sup>9</sup> 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)).

<sup>10</sup> 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.

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.
13. The 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.
  14. The 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**

15. 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 APB Ethical Standards for Reporting Accountants (ESRA) and Standards for Investment Reporting (SIRs).
16. SIRs and Bulletins adopt the same style and format and have the same status as equivalent APB pronouncements applying to auditors of financial statements.

**Guidance for Auditors Involved in Other Assurance Engagements.**

17. The 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 (UK and

Ireland), the 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 existing APB guidance that remains pertinent. The 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**

18. In order to be eligible for appointment in Great Britain as auditors of companies, or of any of the other entities which require their auditors to be eligible for appointment as auditors under section 25 of the Companies Act 1989 (section 1212 of the Companies Act 2006), persons must be registered with a Recognised Supervisory Body (RSB)<sup>11</sup> recognised under that Act and must be eligible for appointment under the rules of that RSB. The Companies Acts 1989<sup>12</sup> and 2006 require RSBs to have rules and practices as to the technical standards to be applied in company audit work and as to the manner in which these 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 these standards.
19. In the Republic of Ireland legislative requirements concerning qualifications for appointment as auditor and recognition of bodies<sup>13</sup> of accountants are contained in the Companies Act, 1990. This Act requires bodies of accountants to have satisfactory rules and practices as to technical and other standards. The Act also empowers the Minister for Enterprise,

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<sup>11</sup> 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.

<sup>12</sup> In Northern Ireland, equivalent requirements are contained in Part III of the Companies (Northern Ireland) Order 1990.

<sup>13</sup> 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.

Trade and Employment to revoke or suspend recognition or authorisation of a body of accountants or individual auditor<sup>14</sup>.

20. The members of the CCAB have undertaken to adopt APB standards and guidance developed by the APB within three months of promulgation by the 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.
21. 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.
22. 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.
23. 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**

24. Before publishing or amending its standards or Practice Notes the 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.
25. The 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

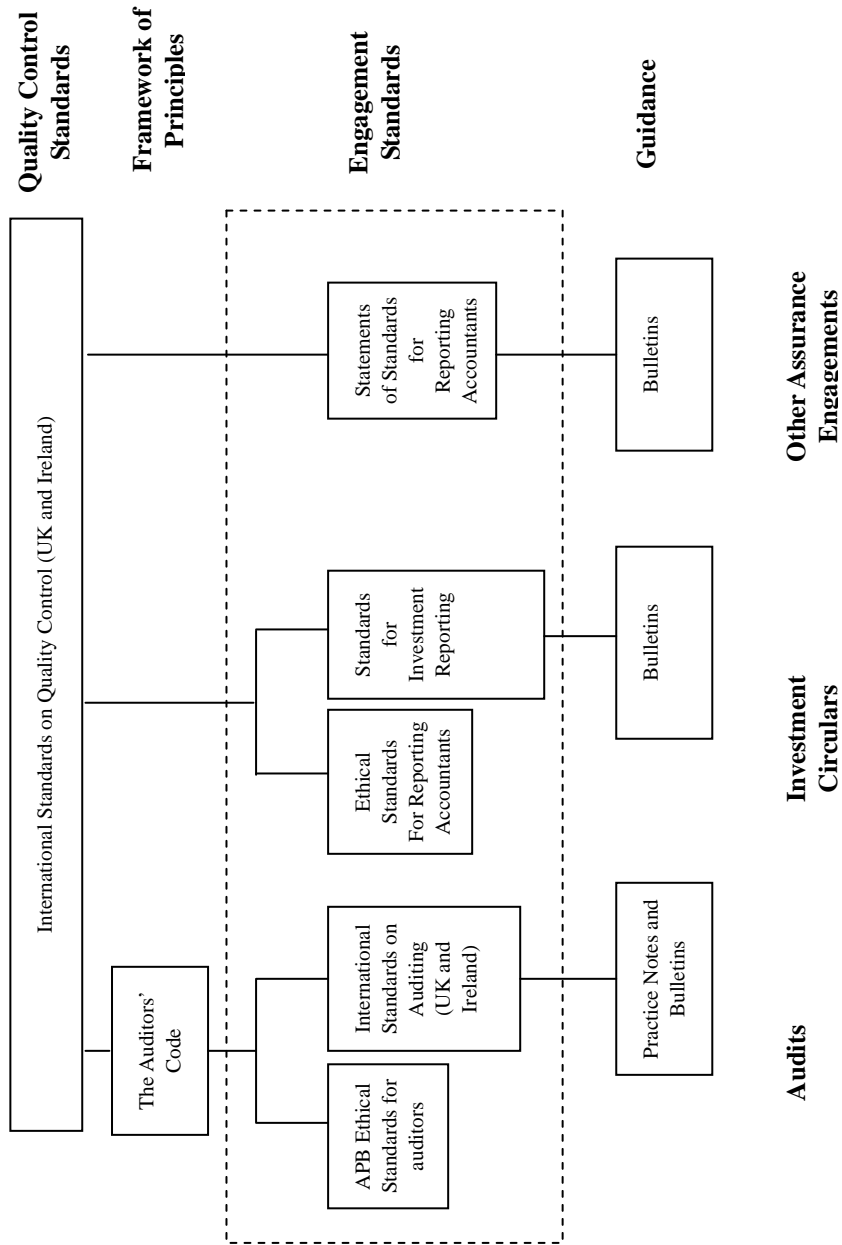
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<sup>14</sup> In the Republic of Ireland the Companies (Auditing and Accounting) Act, 2003, has made provision for the establishment of The Irish Auditing and Accounting Supervisory Authority (IAASA), a new statutory supervisory body. The functions of IAASA will include a role in cooperating and working in partnership with the auditing profession and other interested parties in developing standards in relation to the independence of auditors and in developing auditing standards and practice notes.

international standards the APB intends to co-ordinate its exposure process with that of IAASB.

26. 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 the APB, and will be available for public inspection.
27. 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, the APB will decide the means by which it will obtain external views on them.
28. Each year the APB considers its priorities and consults on its proposed work programme with interested parties.

**Structure of APB Pronouncements**



**Appendix 2****The Auditors' Code**

<b>Accountability</b>	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.
<b>Integrity</b>	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.
<b>Objectivity and independence</b>	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.
<b>Competence</b>	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.
<b>Rigour</b>	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

## Scope and Authority of Pronouncements

	necessary for the purposes of their audit.
<b>Judgment</b>	Auditors apply professional judgment taking account of materiality in the context of the matter on which they are reporting.
<b>Clear, complete and effective communication</b>	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.
<b>Association</b>	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.
<b>Providing value</b>	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 ISAs (UK and Ireland) are based on International Standards on Auditing of the same titles, which have been issued by the International Auditing and Assurance Standards Board and published by the International Federation of Accountants.