



Financial Reporting Council

FRC Professional Judgement Guidance

Expectations Paper

June 2022

FRC Professional Judgement Framework

Executive Summary

1. The FRC has developed a Professional Judgement Framework with a working group of audit practitioners, independent experts and colleagues from FRC Enforcement and Supervision. This paper sets out the status of the guidance, and the FRC's expectations about how it might be used by practitioners to drive enhanced audit quality.

2. We intend for the Framework to have the status of non-prescriptive guidance. This is consistent with a range of other guidance (Practice Notes for example) which:

are persuasive rather than prescriptive and are indicative of good practice.... 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 engagement standards have been complied with.¹

3. The fact that the Framework is non-prescriptive does not mean that audit practitioners in the UK should disregard it. Practitioners are therefore expected to be aware of guidance that we issue, and to consider its relevance to audit and assurance engagements.

4. The Framework, and the associated working examples that have been included with it, can be applied to multiple circumstances and in a variety of ways. Our intent is that:

- a. It can be applied at a firm-wide level, and potentially incorporated into the firm's methodology;
- b. It may be an important consideration in the development of a Quality Management System in accordance with ISQM (UK) 1;
- c. It can also be applied in the circumstances of an individual audit engagement as a stand-alone guide to the application of professional judgement;
- d. It can be used by individual practitioners at any level of seniority in the conduct of an audit or assurance engagement, and provides high level principles and a benchmark for the application of professional judgement.

Status of the Framework

5. When defining the status of the Framework, the FRC has considered many factors but has focussed on the desired outcome. That is that auditors apply high quality professional judgements on a more consistent basis. We believe this can best be achieved through non-prescriptive guidance.

6. Our Framework sets out principles that can be applied to help deliver high quality professional judgement, an indicative process to follow, risks and mindset traps, and illustrative examples. Any of these aspects of the material can be applied in a variety of circumstances – and indeed prescription might be impracticable or have outcomes which are inconsistent with our objectives. Our intent is not to create unnecessary process or documentation, but to enable better and more consistent professional judgement.

¹ FRC, Scope and Authority of Audit and Assurance Pronouncements, 2016.

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7. It is important to note that although the Framework itself is non-prescriptive, the application of professional judgement in the conduct of audits (and other assurance engagements) is a requirement of the auditing standards.

Expectations

8. FRC guidance is intended to be 'persuasive' rather than 'prescriptive', encapsulating good practice. Practitioners who chose not to apply or consider Practice Notes, for example, are required to be prepared to explain how they have complied with the requirements of the auditing standards. We would not therefore require firms who already have a professional judgement framework to adopt the FRC's instead. However, we would expect those firms to analyse and understand the FRC's Framework and identify and remedy any areas where their own frameworks could be enhanced. We would also encourage those firms to assess how and in what circumstances they apply their frameworks. We believe that the process for implementing the new Quality Management Standards (ISQM (UK) 1, ISQM (UK) 2 and ISA (UK) 220) represents a significant opportunity to ensure that any professional judgement framework that is being applied helps address risks to audit quality within the firm.
9. We would encourage those firms who do not yet have their own professional judgement framework to consider the merits of developing one, or applying the FRC's. We further note that it is not simply the existence of a framework which is important, but how effectively it is utilised in the specific circumstances of a firm, or of an engagement.

Applications of the Framework

10. One further issue which has been considered by the FRC's working group is how a Professional Judgement Framework should be applied in practice. This reflects divergent practice with some firms focussing on central methodology and/or training applications, and others focussing instead on more complex and subjective professional judgements made at the engagement level. The FRC believes that it is a matter for audit firms to decide which approach will be more effective in their individual circumstances.
11. It is that assessment of how a framework can drive better and more consistent professional judgements that is critical, and how it can (or could) help manage risks to quality management. Audit firms will therefore need to understand what additional opportunities there are to ensure that a professional judgement framework is understood and socialised within the firm, and that appropriate expectations are set for how it can be used.



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**Financial
Reporting Council**

8th Floor
125 London Wall
London EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk