

CONDUCT COMMITTEE GUIDANCE

Thresholds/Guidance for referral for investigation

1. Under Rule 4 of the Audit Enforcement Procedure, where the Conduct Committee considers that there is a good reason to investigate an alleged failure to comply with a relevant requirement, it shall refer the Allegation for investigation.
2. The Conduct Committee can delegate its functions under Rules 4 and 5 to the Case Management Committee.
3. This document provides guidance on when the Conduct Committee might refer Allegations for investigation. The purpose of this guidance is to ensure that consistent and proportionate decisions are taken, although it is recognised that every Allegation will have its own unique facts and circumstances.
4. This guidance will be referred to by the Conduct Committee and may be helpful for anyone interested or involved in the FRC's Audit Enforcement Procedure.

Considerations

5. When determining whether there is a good reason to investigate an Allegation the Conduct Committee will have regard to the EU Audit Regulation and the expectation that Member States shall ensure that there are effective systems of investigations and sanctions to detect, correct and prevent inadequate execution of the statutory audit.
6. This illustrative list sets out examples which might suggest a good reason to investigate but it is important to note that the list is non-exhaustive and none of the following characteristics are a pre-requisite in order to satisfy the threshold for investigation:
 - (a) it has the potential to damage public confidence in Statutory Audit or the audit profession;
 - (b) it has the potential to damage investor confidence in the truth and fairness of the financial reporting of an entity;
 - (c) it may have contributed directly or indirectly to financial detriment or other harm to those reliant upon the statutory audit process;
 - (d) it may have contributed directly or indirectly to financial detriment or other harm to a number or vulnerable category of individuals or institutions;
 - (e) it may suggest possibly pervasive conduct reflecting the number of institutions involved and/or the length of time the alleged breach(es) persisted;
 - (f) it may suggest the financial information is inaccurate or incomplete;
 - (g) it may suggest criminal offences have been committed;
 - (h) it may suggest a failure in regulatory compliance processes or approach;
 - (i) it may suggest a failure to adhere to ethical standards; and/or

- (j) It will assist the FRC in pursuing its objectives of promoting high quality audit and detecting, correcting and preventing inadequate execution of the statutory audit.
7. Conversely the following illustrative list sets out non-exhaustive examples of where the Conduct Committee may decide there is not a good reason to investigate. It is important to note, however, that the presence of one or more of these factors does not necessarily preclude a finding of a good reason to investigate:
- (a) no potential to damage investor confidence in the truth and fairness of the financial reporting of an entity;
 - (b) limited or no financial detriment or other harm to those reliant upon the statutory audit process;
 - (c) an isolated incident; and/or
 - (d) a minor breach of the Relevant Requirements.

Delegation of Investigations and Oversight of Investigations

8. If the Conduct Committee refers an Allegation for investigation they must also direct:
- (a) whether the investigation should be delegated to the appropriate Recognised Supervisory Body ("RSB"); and, if the matter is not delegated to an RSB
 - (b) whether the investigation shall be overseen by the Case Management Committee.
9. The Conduct Committee will at all times retain an absolute discretion as to these two matters but factors which may be relevant to these decisions include:
- (a) the seriousness of the Allegation;
 - (b) the number of factors as set out at paragraph 6 above;
 - (c) the complexity of the Allegation;
 - (d) the public profile (or anticipated profile) of the Allegation;
 - (e) the capacity and capability of the RSB to whom the Allegation would be delegated¹;
 - (f) the capacity within the FRC to conduct the investigation; and/or
 - (g) the likely resources required for the investigation (including costs).
10. Where the Conduct Committee has delegated its decision-making under Rules 4 and 5 of the Audit Enforcement Procedure to the Case Management Committee, references in this Guidance to the Conduct Committee should be read as referring to the Case Management Committee, as applicable.

¹ Capability may include matters contained in or as a result of any delegation arrangements with the particular RSB.

Reconsideration

11. Under Part 8 of the Audit Enforcement Procedure, the Conduct Committee may reconsider a decision of the Case Examiner made under Rule 3 or of the Conduct Committee pursuant to Rule 4 subject to the test set out in Rule 70.

Issued by the Conduct Committee

17 June 2016