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# Guidance on the use of audit firms from more than one network

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## **Introduction**

This guidance was originally produced by the FRC in 2008 to provide audit committees of growing companies using non-Big Four audit firms with relevant factors they may wish to consider when their activities expand geographically beyond the perceived capacity of their existing firm.

More generally, it was felt that the guidance could also help audit committees to select auditors for individual components of the group financial statements based on how best to achieve audit quality for that particular component and for the group as a whole.

To assist users to compare different group audit arrangements, the guidance includes a description of considerations relevant to the use of firms from one audit network as well as those relevant to the use of firms from more than one network.

## **Drivers of audit quality for group audits**

Under UK auditing standards, the group auditor has sole responsibility for the audit opinion on the group accounts, the group auditor cannot limit its responsibility by referring to the work of another firm.

For the group auditor's work to be effective there are key quality drivers that need to be in place, including:

- A well-structured and efficient methodology;
- Arrangements to safeguard auditor integrity, objective and independence;
- Arrangements to ensure partners and staff understand their client's business and staff performing detailed "on-site" audit work have sufficient experience;
- Effective, understood and applied quality control procedures;
- Effective communication between the group auditor and the parent company's audit committee covering the key risks identified and judgements made in reaching the group audit opinion.

Achieving each of these drivers on a group audit presents some challenges to the auditor where there are international components. The extent of this challenge will vary by group depending on factors that may include:

- The extent to which the group has international operations and subsidiary undertakings;
- The countries and regions in which the group has international components;
- The extent to which the components of the group transact with each other;
- The diversity of the group's operations including the industries in which it operates;
- The extent to which the finance function of the firm is centralised;
- The extent to which the components require local statutory audits.

## **Use of firms from a single network**

It is common practice to appoint one firm to audit the parent group and the consolidated group accounts. This firm then uses other firms from within its international network to carry out audit work on components that are needed for group audit purposes. It is common for the same firms to carry out statutory audits of subsidiaries where these are needed.

The 'single network' arrangement is common because firms from a single network may have:

- Common audit methodology that is generally seen as well-structured, efficient and effective;
- Effective inter-office communication arrangements;
- Partners and staff in network firms internationally that understand the group's business and have staff available to perform detailed "on-site" audit work with that experience;
- Common quality control policies and monitoring arrangements across the network that are effective, understood and applied.

In assessing the use of firms from a single network, audit committees may wish to consider these questions:

- Do each of the network's member firms that will be involved in the group audit have partners and staff that understand the group's business?
- Will each of the network's member firms select a staff with sufficient experience to perform detailed "on-site" audit work?
- In considering the findings of each of the other firms from within its network, will the group auditor review the degree to which the firm has followed the network's common audit methodology and associated procedures?
- What quality checks and inspections are carried out by the network organisation on its member firms?
- What information is available to the group auditor on the results of these quality inspections and on any follow-up actions?

## **Use of firms from more than one network**

In some circumstances it may be appropriate to use a firm from more than one network to achieve a high quality and cost-effective audit. The group would still appoint a single firm to audit the parent company and the group's consolidated financial statements. However, the group would agree with the group auditor that for some components the audit work that is needed for group audit purposes will be carried out by one or more firms from other networks.

However, where consideration is given to using firms from more than one network, groups should be mindful that the firm appointed to audit the parent company and group's consolidated financial statements must be able to demonstrate that they can satisfy the principal auditor requirements as set out in International Standards on Auditing (UK and Ireland) 600.

It is likely that the same firms will be used to carry out audits of subsidiaries where these are needed for local statutory purposes.

Groups for which this arrangement may be useful include:

- Groups that consider their current auditor delivers high quality audits but have growing or new subsidiaries in locations not well served by their current auditor's network;
- Groups wishing to give subsidiaries the option of which audit firm to use for local audits;
- Groups wishing to have the flexibility to select the firms in each country with the most suitable capabilities to carry out audit work on the relevant subsidiary.

In assessing the use of firms from more than one network, audit committees may wish to consider:

- How the group auditor will assess the independence and professional competence of the firms from other networks;
- How the group auditor will ensure that they are familiar with the methodology of the other firms, in order to enable them to evaluate the audit evidence obtained;
- The arrangements the group auditor will make with different networks to ensure that they communicate effectively with each other;
- The overall costs and benefits associated with using firms from more than one network;
- What costs will be attached to the group auditor assessing firms from other networks evaluating audit evidence obtained by them and addressing any issues.

### **Use of joint auditors**

This is a special case of use of firms from more than one audit network. The group appoints two firms who are expected to reach a single group audit opinion for which they are jointly responsible. Audit work that is needed for group audit purposes would normally be carried out by firms from the joint auditors' networks.

The groups may find this arrangement useful if they:

- Have completed a merger and wish to maintain audit experience and knowledge by keeping the auditors involved in each of the merged entities;
- Wish to have the benefits of an audit opinion from two firms;

- Wish to reduce the scope for close relationships to build up with the auditor or for the auditor to become complacent;
- Wish to facilitate the rotation of audit firms by maintaining audit knowledge and experience;
- Wish to have a safeguard against the withdrawal from the market of their auditor.

In assessing the uses of joint auditors, audit committees may wish to consider:

- How effectively will the two joint auditors coordinate their work and cooperate with each other in reviewing findings;
- How effectively will the joint auditors ensure that all key issues are addressed;
- How effectively will the joint auditors conclude on highly judgemental matters;
- Balancing the benefits of a joint opinion with the underlying costs.



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