

## **GUIDANCE FOR CASE EXAMINER**

### **Introduction**

1. The Case Examiner is required to undertake a number of initial actions at the beginning of a case. Most importantly he is required under Rule 3 to determine whether the information amounts to an Allegation.
2. For the avoidance of doubt, matters within the knowledge of the FRC do not automatically fall to be considered by the Case Examiner. Specifically if the Case Examiner becomes aware of reviews or inspections undertaken by the Audit Quality Review team he will not take any steps under the AEP unless the matter is formally referred to him by the AQR team/committee. However information about a statutory auditor or statutory audit firm may be received from many sources and can be passed to the Case Examiner from internal sources within the FRC as well as third party complaints or concerns being raised and the Case Examiner may then consider these under the AEP.
3. "An Allegation" is defined as meaning "information about a Statutory Auditor or Statutory Audit Firm which raises a question as to whether they have breached a Relevant Requirement. Executive Counsel shall particularise the Allegation(s) which are to be set out in any Notice of Referral to the Enforcement Committee or in any Notice of Hearing".
4. This document provides guidance as to the decisions and actions a Case Examiner must take when determining how information should be handled at the outset of a case. The purpose of this guidance is to ensure that consistent and proportionate decisions are taken, although it is recognised that every situation will have its own unique facts and circumstances.
5. This guidance will be referred to by the Case Examiner and may be helpful for anyone interested or involved in the FRC's Audit Enforcement Procedure.
6. The Case Examiner's role includes ensuring that anyone wishing to provide information to the FRC is provided with clear information about the role and scope of the FRC's functions and ensuring that there are no barriers to relevant complaints being made or information being provided.

### **Initial checks**

7. On receipt of information the Case Examiner should confirm that the information relates to a statutory auditor and/or statutory audit firm and concerns a matter within the scope of the FRC's retained regulatory activity.

### **Determining whether information amounts to an Allegation**

8. The Case Examiner has powers to make enquiries and obtain specialist advice (i.e. instruct experts) to help him determine whether information amounts to an Allegation. Where necessary the Case Examiner may seek legal advice. The enquiries and advice should be limited to assisting the Case Examiner with the determination of whether the information amounts to an Allegation.
9. The Case Examiner will have regard to the Relevant Requirements (as defined by the 2016 Regulations) and will assess whether the information received raises a question of a breach of these requirements.

10. The Case Examiner may communicate with the potential Respondent (or their representatives) about the information received.
11. Where the Case Examiner considers that the information raises a question of a breach he has discretion to seek constructive engagement with the statutory auditor or statutory audit firm as a way of resolving the matter.
12. Where the Case Examiner determines that the information does not amount to an Allegation he shall take no further action.

### **Constructive engagement**

13. Constructive engagement will be entirely at the discretion of the Case Examiner. It will be suitable for cases where there has been a minor, technical breach of the Relevant Requirements. Such cases will usually be at the very lowest end of the spectrum of Allegations.
14. Constructive engagement may be appropriate where there is no real concern about harm to investor, market or public confidence in statutory audit process and where there is no evidence of financial detriment to anyone.
15. Constructive engagement is focused on ensuring that any minor and possibly inadvertent breaches have been rectified and risk of repetition has been adequately addressed. It may take any form, including written advice, warning letters or discussion or correspondence with the individual statutory auditor or statutory audit firm aimed at ensuring that the possible breach is not repeated.

### **Interim Orders**

16. Under Rule 3(a)(i) the Case Examiner has the power to refer an Allegation for consideration of an Interim Order. Interim Orders are orders which impose restrictions on the Respondent pending the outcome of the FRC's investigation or proceedings. An Interim Order can only be made by the Enforcement Committee or Tribunal. A Case Examiner can only refer an Allegation to the Enforcement Committee for such orders.
17. The procedure for Interim Orders is set out in Part 6 of the Rules. The Case Examiner's role is to conduct an early risk assessment to identify whether a case should be referred for consideration for an interim order by the Enforcement Committee and if so, to commence the notification process under Rule 59.
18. Factors which might indicate that a case should be referred for an interim order to be considered by the Enforcement Committee include:
  - (a) serious breaches of the Relevant Requirements;
  - (b) ongoing risk of harm to investor, market or public confidence in the truth and fairness of the financial reporting of an entity;
  - (c) ongoing risk of significant financial detriment or other harm for those reliant on the statutory auditor or statutory audit firm's compliance with the relevant requirements.

This list is non-exhaustive and referral is at the discretion of the Case Examiner.

### Referral to Conduct Committee

19. Where the Case Examiner determines that the information about a Statutory Auditor or Statutory Audit Firm amounts to an Allegation, and he has not resolved the matter using constructive engagement, he shall refer the Allegation to the Conduct Committee.<sup>1</sup>
20. The Case Examiner will prepare the papers which will go to the Conduct Committee for its decision as to investigation and delegation.
21. To assist the Conduct Committee with its functions, covering reports to the Conduct Committee should summarise the information, identify the possible breaches, refer to the test and guidance for investigation and may make recommendations as to investigation.
22. The final formal role for the Case Examiner is to ensure that the Notice of Investigation is sent (or notification that an Allegation is not being referred for investigation) after the Conduct Committee decision in accordance with Rule 7.

### Reporting Requirements

23. The Case Examiner shall provide data to the Conduct Committee to summarise those matters where he has:
  - (a) determined that the information about a Statutory Auditor or Statutory Audit Firm does not amount to an Allegation; or,
  - (b) resolved the matter using constructive engagement.
24. The Conduct Committee shall be entitled to request further details on a sampling basis of any such cases by way of oversight.

### Issued by the Conduct Committee

17 June 2016

---

<sup>1</sup> Where the Conduct Committee has delegated its decision-making under Rule 4 to the Case Management Committee, references in this Guidance to the Conduct Committee should be read as referring to the Case Management Committee.