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Scope and Authority of Audit and Assurance Pronouncements

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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THE FINANCIAL REPORTING COUNCIL – SCOPE AND AUTHORITY OF AUDIT AND ASSURANCE PRONOUNCEMENTS

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Nature and Scope of FRC Audit and Assurance Pronouncements

1. Audit and assurance pronouncements issued by the FRC include:
 - Quality control standards for firms that perform audits of financial statements, report in connection with investment circulars, provide assurance on client assets or reviews of interim financial information by the auditor,
 - Ethical and engagement standards for audits of financial statements, reports in connection with investment circulars, engagements to provide assurance on client assets and reviews of interim financial information by the auditor, and
 - Guidance for auditors of financial statements, reporting accountants and auditors involved in other assurance engagements.

The structure of the audit and assurance pronouncements is shown in the Appendix.

2. Auditors and reporting accountants should not claim compliance with the FRC's audit and assurance or ethical standards unless they have complied fully with all of those standards relevant to an engagement.
3. Quality control standards and engagement standards for audits of financial statements (the International Standards on Quality Control (ISQC) (UK) and the International Standards on Auditing (ISAs) (UK)) and the engagement standard to provide assurance on client assets include objectives for the auditor, together with requirements¹ and related application and other explanatory material. The Ethical Standard contains overarching ethical principles and supporting ethical provisions, the ethical outcomes of which are required to be met, together with requirements¹ and related application and other explanatory material. It is necessary to have an understanding of the entire text of a standard, including its guidance, to understand its objectives, overarching ethical principles or supporting ethical provisions (as applicable) and to apply its requirements properly. Further explanation of the scope, authority and structure of the engagement standards are set out in ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*.
4. Engagement standards for reporting accountants acting in connection with an investment circular (the Standards for Investment Reporting (SIRs)) and the engagement standard for reviews of interim financial information by the auditor contain requirements, basic principles and essential procedures (identified in bold type lettering²) together with related guidance. The requirements, 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

¹ The level of authority of the text in requirements paragraphs is identified by use of the term "shall" (e.g. 'the auditor shall ...').

² The level of authority of the text in these paragraphs is identified by use of the expression "the auditor should ..." in the SIRs and the standard for reviews of interim financial information; and by use of the expression "the auditor shall ..." in the standard for engagements to provide assurance on client assets.

therefore necessary to consider the whole text of a standard to understand and apply the requirements, basic principles and essential procedures properly.

5. The ISAs (UK) and ISQC (UK) 1 are based on the corresponding international standards issued by the International Auditing and Assurance Standards Board³ (IAASB). Where necessary, the international standards have been augmented with additional requirements to address specific UK legal and regulatory requirements; and additional guidance that is appropriate in the UK national legislative, cultural and business context. This additional material is clearly differentiated from the original text of the international standards by the use of grey shading. Requirements derived from the European Audit Regulation⁴ and Directive⁵ are designated by the letter “R” or “D” respectively⁶. ISAs (UK) are consistent with International Standards on Auditing as issued by the IAASB and the requirements of ISAs (UK) do not conflict with the requirements in ISAs. An audit conducted in accordance with ISAs (UK) does not therefore preclude the auditor from being able to assert compliance with International Standards on Auditing issued by the IAASB.
6. Requirements in the Audit Regulation contained in the Ethical and Auditing Standards, which are applicable to the audit of Public Interest Entities are applicable to those entities as defined in Article 2 (13) of Directive 2006/43/EC as amended.
7. For the audit of UK groups, the group auditor needs to be satisfied that the audit of the group financial statements, on which the group auditor gives an audit opinion, is in accordance with the ISAs (UK). Auditors of overseas components are not required to have regard to the additional requirements and guidance material in those standards, although the group auditor may decide to refer to it in their instructions to component auditors⁷.
8. The ISAs and ISQC 1, as issued by the IAASB, require compliance with ‘relevant ethical requirements’ which are described, in the application material, as ordinarily comprising Parts A and B of the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (the IESBA Code⁸) related to an audit of financial statements together with national requirements that are more restrictive. The ISAs (UK) and ISQC (UK) 1 have supplementary material that makes clear that auditors in the UK are subject to ethical requirements from two sources: the

³ 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, Review, Other Assurance and Related Services’.

⁴ Regulation (EU) No 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

⁵ Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, as amended by Directive 2014/56/EU.

⁶ The same convention has been used for the numbering of the Ethical Standard.

⁷ If the auditor of an overseas component is a part of the same firm as the group auditor (i.e. the same legal entity) consideration needs to be given to whether the auditor of the overseas component has the same legal obligations as the group auditor and, therefore, is required to comply with the legal or regulatory requirements of the ISAs (UK). If such obligations exist, consideration needs to be given to the implications for communication between the group auditor and component auditor (for example where necessary to fulfil obligations for reporting money laundering offences or reporting matters to a regulator).

⁸ The IESBA Code is included in the IFAC “Handbook of the Code of Ethics for Professional Accountants” and can be downloaded free of charge from the publications section of the IAASB website (www.ifac.org/IAASB).

FRC's Ethical Standard, and the ethical pronouncements established by the auditor's relevant professional body.

9. ISQC (UK) 1 also has supplementary material that makes clear that the Ethical Standard applies to all other public interest assurance engagements that are undertaken in compliance with performance standards issued by the FRC, which comprise:
 - Reporting accountants acting in connection with an investment circular (the Standards for Investment Reporting – SIRs),
 - Reviews of interim financial information by the independent auditor of the entity (International Standard on Review Engagement (UK and Ireland) 2410), and
 - Engagements to provide assurance on client assets to the Financial Conduct Authority (the Client Asset Assurance Standard).
10. The Ethical Standard was developed with the intent that it should adhere to the principles of the IESBA Code.

Standards and Guidance for Audits of Financial Statements

11. The FRC has been designated as the Competent Authority for Audit in the UK⁹ and as such has the authority to determine technical standards to be applied for statutory audits of companies in accordance with the Companies Act 2006.
12. Ethical and engagement standards for audits of financial statements, which comprise the Ethical Standard and International Standards on Auditing (ISAs) (UK), apply to auditors carrying out:
 - Statutory audits of companies in accordance with the Companies Acts¹⁰;
 - Audits of financial statements of entities in accordance with other UK legislation e.g. building societies, credit unions, friendly societies, pension funds, charities and registered social landlords;
 - Public sector financial statement 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 agencies¹¹ in the UK have chosen to adopt the ethical, engagement and quality control standards issued by the FRC for audits as the basis of their approach to the audit of financial statements);
 - Other audits performed by audit firms registered with the UK members of the

⁹ By order of SI 2016/649 The Statutory Auditors and Third Country Auditors Regulations 2016.

¹⁰ Companies Act 2006.

¹¹ National audit agencies in the UK are the National Audit Office (for the Comptroller and Auditor General), the Wales Audit Office (for the Auditor General for Wales), Audit Scotland (for the Auditor General for Scotland and the Accounts Commission) and the Northern Ireland Audit Office (for the Comptroller and Auditor General for Northern Ireland).

Consultative Committee of Accountancy Bodies (CCAB)¹² unless the nature of the engagement requires the use of other recognised auditing standards and the rules of the relevant CCAB member does not preclude 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 auditing standards.
13. Guidance for auditors of financial statements is also issued 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 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 engagement standards have been complied with.
14. In particular industries or sectors, guidance for auditors may also be issued as Statements of Recommended Practice (SORPs) which clarify how engagement standards may need to be applied in order to be relevant and provide useful information to users of auditor's reports or other information issued by the auditor in that industry or sector. SORPs are persuasive rather than prescriptive and are indicative of good practice. Auditors should be aware of and consider SORPs applicable to the engagement. Auditors who do not consider and apply the guidance included in a relevant SORP should be prepared to explain how the engagement standards have been complied with. SORPs are issued by bodies recognized for this purpose by the FRC, and developed in accordance with the FRC's "Policy on Developing Statements of Recommended Practice (SORPs) (March 2016).

Standards and Guidance for Auditors Acting in Connection With an Engagement to Report to the Financial Conduct Authority in respect of Client Assets

15. The Client Asset Assurance Standard issued by the FRC applies to auditors when carrying out an engagement to report to the Financial Conduct Authority in respect of client assets.

Standards and Guidance for Reporting Accountants Acting in Connection With an Investment Circular

16. The Ethical Standard and Standards for Investment Reporting (SIRs) issued by the FRC 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.

Statements of Standards for Reporting Accountants

17. The FRC also issues standards and guidance for accountants on assurance engagements closely related to an audit of the financial statements. This includes the

¹² The UK members of CCAB are The Institute of Chartered Accountants in England & Wales, The Institute of Chartered Accountants of Scotland, The Association of Chartered Certified Accountants and The Chartered Institute of Public Finance and Accountancy.

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), a relatively small amount of additional material (highlighted with grey shading) has been added 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 listed companies) and to perpetuate previous guidance that remains pertinent.

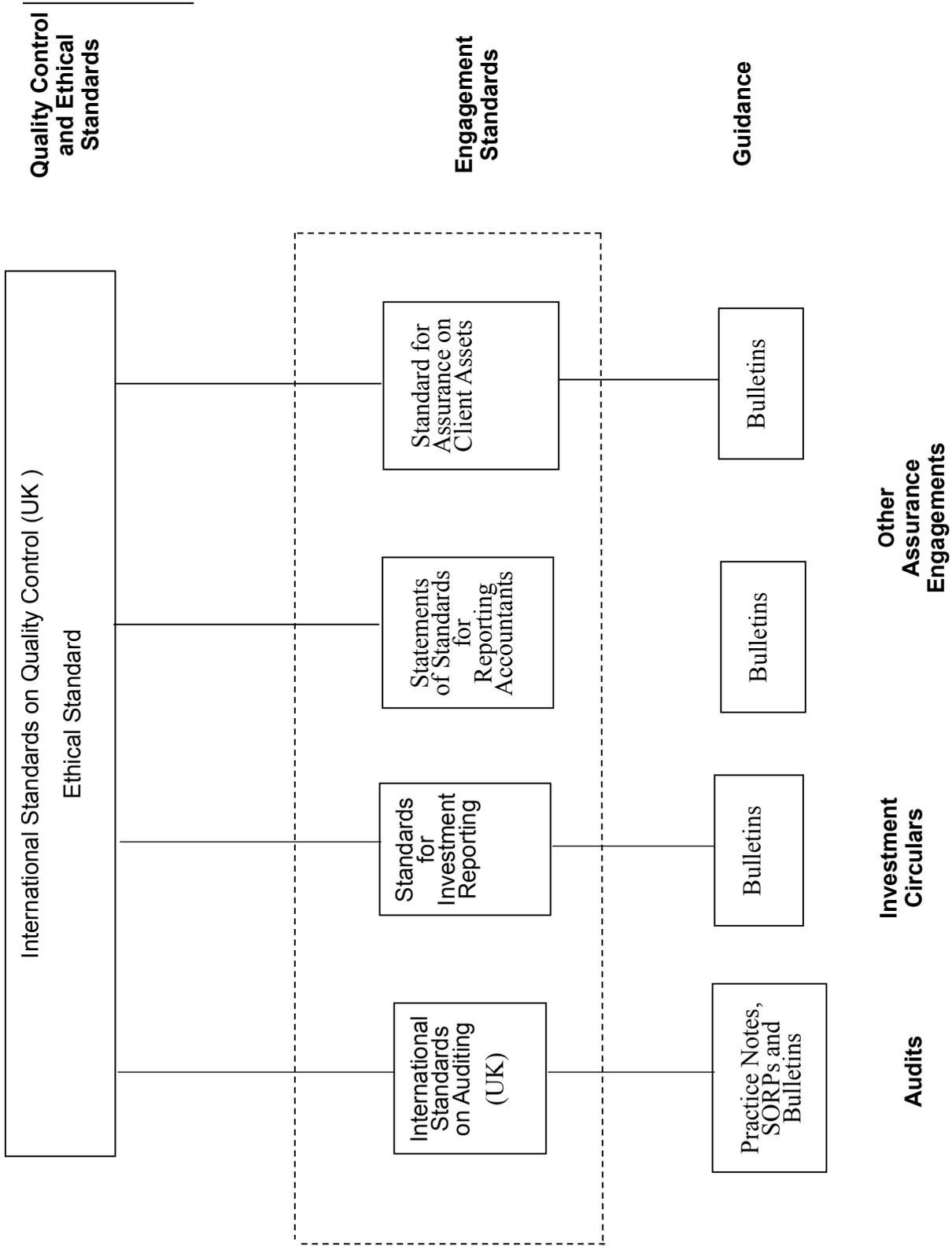
Authority of FRC Audit and Assurance Pronouncements

18. In order to be eligible for appointment in the UK as auditors of companies, or of any of the other entities that require their auditors to be eligible for appointment as auditors under section 1212 of the Companies Act 2006, persons must be registered with a Recognised Supervisory Body (RSB)¹³ recognised under that Act and must be eligible for appointment under the rules of that RSB. The Companies Act 2006 requires RSBs to have rules and practices as to the technical standards to be applied in company audit work and the manner in which those standards are to be applied in practice. Those rules must include provision requiring statutory auditors to comply with standards determined by the FRC¹⁴ as the competent authority. Each RSB is also required to have arrangements in place for the effective monitoring and enforcement of compliance with those standards.
19. The members of the CCAB have undertaken to adopt the ethical and engagement standards and guidance issued by the FRC where the application of those standards is not required by law.
20. Apparent failures by auditors to comply with applicable ethical or engagement standards are liable to be investigated by the FRC or the relevant accountancy body. Auditors who do not comply with the applicable ethical or engagement 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.
21. All relevant FRC pronouncements 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.
22. The nature of the ethical and engagement 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 requirement, 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.

¹³ The Institute of Chartered Accountants in England & Wales, The Institute of Chartered Accountants of Scotland, Chartered Accountants 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.

¹⁴ Regulation 3(c) of the Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) places a specific responsibility on the FRC to determine those standards, which must meet requirements set out in Schedule 1.

Structure of FRC Audit and Assurance Pronouncements



Quality Control and Ethical Standards

Engagement Standards

Guidance

Other Assurance Engagements

Investment Circulars

Audits

Statement on Scope and Authority of Audit and Assurance Pronouncements



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