

# **FRC Audit Sandbox**

## **Terms of Engagement**

### **Introduction**

The objective of the FRC's Audit Sandbox is to promote and enhance the application of the FRC's Auditing, Assurance and Ethical standards to achieve consistently high-quality audit and assurance work. We will deal with specific focussed technical and policy issues in a collaborative approach aimed at audit and assurance practitioners and other relevant stakeholders.

The Sandbox also aims to promote innovation and spread good practice, and we will seek to find new ways of working with stakeholders in order to achieve this. We will also draw on methodologies which have proven successful from other FRC initiatives (for example the FRC Lab) and from other regulators.

### **FRC Staff**

Project Directors from the FRC's Audit & Assurance Policy team will be responsible for running the Sandbox, including issue identification, scoping and delivery. There will be no other permanent members, since the initiative is intended to be flexible and responsive to multiple stakeholders across a broad range of technical issues.

### **Participants**

We anticipate that a wide range of potential stakeholders may wish to participate and contribute to specific Sandbox issues. These include, but may not be limited to:

- audit and assurance practitioners
- preparers of financial information
- audit committees
- users of assurance

Participation will be by invitation but voluntary, and we will seek diversity of thought and perspective, to ensure that the public interest is reflected in discussions and appropriately safeguarded. We will also seek to ensure equitable access for the range of interested parties, and welcome expressions of interest on specific topics.

### **Matters to be dealt with via the Sandbox**

The Sandbox is intended to provide a mechanism for resolving practical issues with the implementation and application of the FRC's Auditing, Assurance and Ethical Standards. It is also intended to help identify opportunities for innovation where this is seen to be prevented by the way in which requirements in standards are interpreted by the market, for spreading good practice, and helping inform FRC audit and assurance policy including in relation to competition in the audit market

These issues may relate to new and emerging challenges, such as the use of new technology or assurance over ESG, or to implementation issues with new auditing, assurance and ethical standards. They may also relate to specific and targeted issues which may not require a wholesale revision of an existing standard or guidance, or to a particular market sector or segment. Discussions within the Sandbox will also inform the FRC's engagement with international standard setters.

The FRC will develop a forward programme of potential topics based on our ongoing engagement with our stakeholders. We will also consider other suggestions raised directly with us. The Sandbox will be used to deal with technical matters that are not simply issues of interpretation, and where the FRC considers that there is a public interest case for a regulatory intervention that goes beyond discussions that might be held at our Technical Advisory Group (TAG).

Proposed subject matter will be subject to an internal evaluation process within the FRC and will be subject to final approval by the Executive Director, Regulatory Standards.

### **Sandbox Webpage**

A dedicated Sandbox webpage will be hosted on the FRC's external website. This will include contact details for expressions of interest on specific topics, as well as the agreed work programme.

### **Confidentiality**

Confidentiality is a fundamental principle for the operation of the Sandbox and to allow robust and transparent dialogue. Participants in Sandbox initiatives must therefore treat any information, data or discussions as confidential unless explicitly advised otherwise by the FRC.

### **Status**

The FRC does not, on principle, 'pre-approve' specific approaches, methodologies or technologies as being compliant with standards or guidance. The circumstances of every audit and assurance engagement are unique, and professional judgement is critical in applying the auditing and ethical standards in each case. Outcomes from the FRC's Audit Quality Reviews, as well as decisions about enforcement action, are based on the quality of those professional judgements and compliance with standards and guidance and are entirely separate from any discussions which take place in the Audit Sandbox. Nothing that is discussed within any Sandbox initiative should therefore be considered to constitute FRC 'approval' or a formal requirement or guidance.

The FRC will consider, on a case by case basis, how to communicate relevant findings from each initiative, to ensure equitable outcomes for practitioners and other stakeholders. This may or may not result in formal guidance, interpretations or amendments to standards.