

# **The Financial Reporting Council's report on its oversight responsibilities**



# **THE FINANCIAL REPORTING COUNCIL'S REPORT ON ITS OVERSIGHT RESPONSIBILITIES**

The Report of the Financial Reporting Council's oversight responsibilities is presented to Parliament pursuant to section 1252(10) of, and paragraph 10(3) of Schedule 13 to, the Companies Act 2006.



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# OVERSIGHT REPORT 2020/21

## The Financial Reporting Council's report on its oversight responsibilities during 2020/21

### Introduction

This is the report from the Financial Reporting Council (FRC) to the Secretary of State for Business, Energy, and Industrial Strategy (BEIS) on how the FRC has discharged its statutory and non-statutory oversight responsibilities in 2020/21. The report describes the key matters that arose from the FRC's oversight activities.

The FRC's oversight functions are undertaken by its Professional Oversight Team. These include:

- statutory oversight of the audit regulatory work performed by the Recognised Supervisory Bodies (RSBs) and Recognised Qualifying Bodies (RQBs) in relation to corporate and local audit;
- oversight by voluntary agreement of the regulatory responsibilities of the Institute and Faculty of Actuaries (IFoA) in relation to its members;
- the administration of the Third Country Auditor (TCA) regime for auditors based outside the UK, auditing entities with a listing on a regulated market in the UK; and
- oversight by voluntary agreement of aspects of regulation by professional bodies, that are members of the Consultative Committee of Accountancy Bodies (CCAB), in relation to the accountancy activities of their members.

During the year the Professional Oversight Team collaborated with BEIS in its activities related to the UK's exit from the EU. We also provided advice to BEIS in support of its public consultation 'Restoring Trust in Audit and Corporate Governance', particularly on implementing the Government's proposals for the registration of auditors and for the oversight of professional accountancy bodies.

Our engagement with the professional bodies has included the agreement of plans to alleviate the impact of Covid-19 on the delivery of their regulatory responsibilities, particularly the delivery of examinations and audit quality monitoring.

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# 1. Executive Summary

## Conclusions

Since March 2020, the professional bodies have faced significant challenges in delivering their regulatory responsibilities during the Covid-19 pandemic. They have demonstrated resilience and adaptability to fulfil the conditions of delegation by replacing face-to-face visits and manual processes with online remote working across their regulatory responsibilities.

Covid-19 has also significantly affected training and education activities, which relied heavily on large groups of people in examination centres and classrooms, and interaction with professional colleagues. Within short timescales the professional bodies introduced new systems and procedures to allow education and examinations to continue. The measures they introduced, such as greater use of remote learning and invigilation, had not been widely used before the pandemic. The bodies should be commended for their largely successful actions to minimise the disruption and concerns affecting students, whilst maintaining the legal requirements that underpin the audit qualification.

Based on our oversight in 2020/21, our principal conclusions are as follows.

- The Covid-19 pandemic and the associated restrictions meant that ACCA (Association of Chartered Certified Accountants), CAI (Chartered Accountants Ireland) and ICAEW (Institute of Chartered Accountants in England and Wales) were unable to complete their monitoring of all UK audit registered firms within the required six-year timescale<sup>1</sup>.
- In all other respects the RSBs are complying sufficiently with the terms and conditions of the [Delegation Agreements](#)<sup>2</sup>.
- The RSBs and RQB's continue to meet the requirements of the recognition criteria of [Schedule 10](#)<sup>3</sup> and [Schedule 11](#)<sup>4</sup> of the Companies Act 2006 (the Act).
- We are satisfied that the RQB's meet the requirements of the Act in approving and monitoring Training Offices.
- There are some areas for improvement as set out below.

## Oversight of statutory audit

### Oversight of audit quality monitoring

Last year the FRC required ICAEW to implement a revised risk-based approach to selecting files for audit quality monitoring at the seven largest firms. The approach should be top-down, in that each time a large firm is visited, the file selection should be made from the whole firm's audit portfolio list, reflecting the risks to audit quality and to the public interest. ICAEW has developed its proposed approach, which has been agreed by the FRC. Our future oversight will include an assessment of the ICAEW's updated processes.

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<sup>1</sup> While ICAS and CAI measure the six-yearly cycle from the previous visit commencement date, ICAEW measures this period from the end of the month in which the previous visit commenced and ACCA measures this period from the date of the previous inspection closing meeting.

<sup>2</sup> Appendix 2 contains a Glossary of Legislation and Delegation Agreements referred to in this report. [Glossary Reference 1.1](#)

<sup>3</sup> [Glossary Reference 1.2](#)

<sup>4</sup> [Glossary Reference 1.3](#)

Our oversight of audit quality monitoring by ACCA in 2020 found that improvements were required in the documentation of evidence by Senior Compliance Officers. We require that ACCA creates guidance to describe how Senior Compliance Officers document their reviews.

## **Oversight of registration of statutory auditors and statutory audit firms**

Our oversight of audit registration includes a recommendation to ACCA to look at ways of streamlining the process for its registration decisions. We also recommend that CAI provides IT training to support its staff in carrying out regulatory tasks.

## **Oversight of Enforcement**

Following our review last year of the RSBs' enforcement processes, we recommended that ICAEW take further steps to document its key enforcement processes. We consider this documentation to be necessary for the mitigation of the risk of loss of knowledge. ICAEW is developing a handbook that will include the necessary processes and we will check progress as part of our oversight in 2021/22.

## **Oversight of Continuing Professional Development**

Our oversight of the RSBs' processes for Continuing Professional Development (CPD) has highlighted some areas that require improvement. We require ICAEW to improve its monitoring of CPD compliance by the statutory auditors it registers.

Additionally, a requirement for RSBs has arisen from the identification of a potential gap that inadvertently arose from earlier communications. Although the FRC is responsible for firmwide procedures at PIE audit firms it does not necessarily test the CPD compliance of non-PIE auditors at the PIE audit firms where it reviews the firmwide procedures. We therefore require the RSBs to ensure adequate review of CPD compliance for all groups of auditors, including all statutory auditors at audit firms that audit PIEs. Further discussions are planned through a working group to ensure that the potential gap is rectified.

## **Oversight of local audit**

ICAS (Institute of Chartered Accountants of Scotland) surrendered its RSB status for local audit on 31 December 2020. Since then, ICAEW has been the only RSB with firms registered for local audit.

We are content with how both RSBs have fulfilled their responsibilities for local audit regulation. We recommend that ICAEW should continue to enhance its top-down<sup>5</sup>, risk-based approach to its file selections for local public inspections, to take account of the developing approach on corporate audits.

## **Oversight of the Institute and Faculty of Actuaries (IFoA)**

We focused on the IFoA's implementation of its voluntary actuarial monitoring scheme, to make sure that it assesses actuarial quality effectively within its scope. Our work also included reviewing the IFoA's proposed CPD and practising certificate regimes. We were content that proposals by the IFoA to amend its byelaws in respect of honorary membership and retirement

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<sup>5</sup> The approach should be top-down, in that each time a large firm is visited, the file selection should be made from the whole firm's audit portfolio list, reflecting the risks to audit quality.



from Council would not harm the public interest. We were satisfied with the IFoA's progress in dealing with our recommendations from last year.

### ***Oversight of governance of RSBs, RQB's and the IFoA***

We followed up previous findings and obtained more evidence of the effectiveness of the professional bodies' governance by observing a selection of their regulatory Board and Committee meetings. We updated our view of the transparency of professional bodies' regulatory governance by reviewing the availability of relevant material to the public. We found no significant shortcomings in the openness of bodies' governance arrangements and governance activity. All had taken steps towards improving transparency on their public websites.

### ***Regulation of Third Country Auditors (TCAs)***

As at March 2021, 93 registered TCAs were subject to annual review and monitoring.

The EU Exit Transition Period ended on 31 December 2020. A firm in any country outside the UK that audits companies listed on a regulated market in the UK must now register as a TCA. Since the end of the Transition Period, we have started to receive new applications from firms in the European Economic Area (EEA). We expect around 60 EEA firms to register as TCAs.

### ***Review of activities to combat climate change***

In November 2020, the FRC published a thematic review of how corporate reporting, audit, and professional bodies are responding to climate change. The review found that climate change must be integrated into decision making now if it is to be tackled in an orderly way. RSBs, RQB's and the IFoA are responding to climate change, but approaches differ in terms of substance and granularity. We will incorporate the findings of the climate thematic review into our oversight activities and continue to assess how the professional bodies are dealing with climate change.

### ***Oversight of accountancy professional bodies***

Until BEIS has completed its public consultation 'Restoring Trust in Audit and Corporate Governance', which includes the Government's proposals for accountancy oversight, our work remains focused on complaints handling.

## 2. Oversight of Statutory Audit

We report annually in accordance with legislation<sup>6</sup>.

### *Delegation by the FRC to the RSBs*

The Secretary of State may give Directions to the FRC in connection with the delegation of tasks to the RSBs<sup>7</sup>. In the Direction issued pursuant to this provision, the then Parliamentary Under-Secretary of State, Baroness Neville-Rolfe, stated that: “The Government intends that the FRC should be the UK Competent Authority for the regulation of auditors, but that legislation will require it to delegate regulatory tasks so far as is possible to RSBs that meet criteria set out in the legislation”.

As the Competent Authority with the ultimate responsibility for audit regulation in accordance with legislation<sup>8</sup>, the FRC delegates to the RSBs certain of the regulatory tasks (audit registration, audit monitoring, enforcement and continuing professional development (CPD)) where it is satisfied that these bodies meet the recognition criteria.

The Government’s consultation document ‘Restoring Trust in audit and Corporate Governance’, published in March 2021, stated that “The FRC is working with the Government to develop proposals on how it would carry out the function of approving individuals and firms as eligible to carry out statutory audits of PIEs, and will consult with the affected audit firms and RSBs. To allow the FRC to reclaim this function, the Government intends to revoke the current direction requiring the FRC to delegate these and other tasks to the RSBs other than in certain circumstances. This will give the FRC greater autonomy as to the regulatory tasks it chooses to perform directly in relation to the oversight of statutory auditors, and those which it considers should be delegated to the RSBs. Further legislative changes may follow in due course”.

The consultation ran from 18 March 2021 to 8 July 2021. The Government is currently analysing the feedback received in response to the consultation.

### *Recognised bodies and recognition criteria*

To be an RSB, the body must continue to satisfy the recognition criteria as set out in Schedule 10 of the Act. Similarly, to be an RQB, the body must continue to satisfy the recognition criteria as set out in Schedule 11 of the Act.

Individuals and audit firms that wish to be appointed as a statutory auditor in the UK must be registered with an RSB and individuals responsible for audit at registered firms (responsible individuals) must hold a recognised audit qualification.

The following are both RSBs and RQBs:

- ACCA
- ICAEW

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<sup>6</sup> [Glossary Reference 2.1](#)

<sup>7</sup> [Glossary Reference 2.2](#)

<sup>8</sup> [Glossary Reference 2.3](#)

- CAI
- ICAS.

In addition:

- AIA (Association of International Accountants) is an RQB only.

### **RSBs and RQBs for Local Audit**

There is a separate regime for local audit. The oversight of local audit RSBs and RQBs is covered in Section 3 below.

### ***Enforcement powers against the recognised bodies***

As the Competent Authority, and under the terms agreed with the RSBs in the Delegation Agreements, where the FRC finds issue with an RSB's performance of a Delegated Task the FRC may:

- direct the RSB to do or refrain from doing a particular action;
- reclaim a case or Delegated Task;
- terminate the Delegation Agreement with that RSB; or
- take such other measure(s) as the FRC deems reasonable and appropriate.

As the Secretary of State's delegate, the FRC also has the following range of statutory enforcement powers in relation to the recognised bodies' compliance with the required statutory criteria for their continued recognition under the Act as RSBs and RQBs. The FRC can:

- direct an RSB or RQB to take specific steps to meet its statutory requirements or obligations;
- seek a High Court order requiring an RSB or RQB to take specific steps to secure compliance with all statutory requirements or obligations;
- impose a financial penalty on an RSB or RQB where it has not met a statutory requirement or obligation on it; and
- revoke the recognition of an RSB or RQB where it appears to the FRC that requirements for continued recognition have not been met.

### ***Oversight and monitoring procedures***

The FRC follows a risk-based approach to determine the regulatory issues that we should focus on each year in the context of the monitoring activities of the different bodies. To help us plan and carry out our oversight role, each RSB and RQB provides an annual regulatory return, which includes information on their regulatory activities during the previous year. The bodies also provide us with their regulatory plans, which are forward-looking documents covering all significant work in progress. Each body is expected to inform the FRC immediately of any significant issues relevant to its role as an RSB or RQB to ensure that the FRC's views are considered before decisions are made.

To discharge the FRC's responsibilities as the Competent Authority and the Secretary of State delegate, the FRC undertakes oversight activities throughout the year as follows:

- understanding and documenting how each body meets all the statutory requirements for continued recognition, including information on how it complies with relevant legislation;
- annual compliance testing of the way in which each body's regulatory systems operate in practice during monitoring visits and evaluating the effectiveness of specific aspects of the regulatory system;
- reviewing, assessing and discussing the information in returns and regulatory plans submitted by the bodies;
- keeping in regular contact with each body, including through an annual cycle of meetings at director and CEO levels, to discuss current issues, trends and future developments;
- ensuring that the RSBs are compliant with the Delegation Agreement;
- requiring specific actions or making recommendations arising from the activities above; and
- ensuring our requirements and recommendations made in prior years have been implemented and have effectively addressed the issues raised.

### *Oversight and monitoring of RSBs and RQBs*

We assessed each RSB's performance of its Delegated Tasks in relation to (i) audit registration, (ii) audit monitoring, (iii) enforcement and (iv) CPD. We also assessed each RSB's compliance with conditions in the Delegation Agreements for the delegation of tasks and with the general criteria for continued recognition as an RSB. Last year we changed the frequency of our audit registration, enforcement and CPD monitoring inspections from an in-depth inspection every three years to annual visits. This has enabled us to seek recent evidence that effective policies and procedures are implemented at each RSB. In addition to this work, we continued our annual shadowing of the RSBs' audit quality monitoring visits to the firms by using remote methods.

The RSBs have reported on three Key Performance Indicators<sup>9</sup> (KPIs) for annual review activity and audit quality monitoring. We will continue monitoring the RSBs against these measures to ensure audit quality is maintained or improved wherever necessary.

We assessed whether the RQBs' qualifications continued to meet the requirements of Schedule 11 of the Act. We engaged with the RQBs to understand and consider their response to the impact of Covid-19 on the way they deliver their RQB responsibilities. We also continued our previous work on the effectiveness of the governance arrangements relating to each RQB's responsibilities. We found no significant issues with the policies and procedures of the RQBs, and the monitoring visits were performed to a satisfactory standard.

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<sup>9</sup> KPI A) 100% of Registered Auditors subject to an accelerated audit monitoring visit ordered by the relevant RSB Committee receive that visit within the timeframe specified.

KPI B) In cases where the audit monitoring visit report is submitted to the relevant RSB Committee for a decision, 100% of reports are issued by the registering RSB to Registered Auditors within 180 days from the date the audit monitoring visit is concluded.

KPI C) 75% of completed audit file reviews by the registering RSB on a Registered Auditor should require not more than limited improvements. Where completed audit file reviews by the registering RSB on a registered auditor require more than limited improvements, the RSB will apply guidance agreed with the FRC to determine whether a root cause analysis should be conducted by the firm.

## Key findings from the oversight and monitoring of RSBs

The findings in relation to delegated regulatory tasks are summarised below.

### Registration of Statutory Auditors and Statutory Audit Firms<sup>10</sup>

The lockdown restrictions imposed by the Government meant that we had to conduct our review of the RSBs' registration processes remotely. Consistent with previous visits, we sent an information request list to each RSB setting out all the information required for our review. The RSBs were able to provide files and other information requested to assist our review through cloud-based solutions. This included:

- information on processes and governance;
- a sample of files for a variety of outcomes relevant to initial and ongoing registration of statutory audit firms and individuals registered to sign audit reports; and
- an overview of the RSB's progress against previous years' requirements and recommendations.

We did not identify any systemic issues that raise concerns about the compliance of the RSBs with the conditions applying to registration under the [Delegation Agreement](#).

A summary of our key findings and areas for improvement in relation to registration, which apply to ACCA and CAI, are as follows:

RSB	Findings and Recommendations
ACCA	Whilst we commend its robust registration process, we recommend that ACCA considers practical changes to enable a quicker process without significantly reducing the rigour of the overall assessment. We are content with the process reviews planned by ACCA and will assess ACCA's actions that arise as a result.
CAI	To maintain its registration function, CAI built a new internal process using Microsoft SharePoint to store and share application documents. As of the date of our review, not all managers had received the required training. This meant that some functionality was not available to them, such as access to updated checklists. We recommend that CAI provides tailored IT training to all team members who work on regulatory tasks that require SharePoint so that they can carry out their roles unencumbered.

### Register of statutory auditors (the register)

ICAS currently hosts the register. In 2020/21 it started to develop a new, more efficient database with updated functionality. In 2021/22, once all parties reach an agreement on the test version, ICAS will review the database with the aim of activating it later in the year.

### Approval and registration of statutory auditors of Public Interest Entities

We have updated the RSBs on the proposals for implementing the measures set out in the Government's consultation<sup>11</sup>. The Government concluded that the regulator should carry out

<sup>10</sup> The Delegation Agreement states that the RSB will comply with the Conditions set out in Appendix 1 of the Delegation Agreement: *Registration of Statutory Auditors and Statutory Audit Firms Conditions* <https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements>.

<sup>11</sup> [Restoring Trust in Audit and Corporate Governance](#)

the task of determining whether individuals and firms are eligible for appointment as statutory auditors of PIEs, rather than continuing the present delegation of this task to the RSBs. The RSBs would continue to carry out the delegated task of determining whether individuals and firms are eligible to be appointed as statutory auditors of non-PIE entities.

We will continue to collaborate with the RSBs to ensure that the new process will be both effective and efficient, with minimal additional administrative burden.

## Audit quality monitoring<sup>12</sup>

We continued to shadow the audit monitoring visits carried out by the RSBs remotely, to assess how they discharge their quality monitoring function. We carried out an in-depth review of the RSBs' processes, including planning, fieldwork, reporting and finalisation. Our review included attendance at key meetings remotely to observe interactions between the RSBs and the audit engagement teams. This allowed RSB staff to demonstrate to us how they respond to concerns on a real-time basis.

During the Covid-19 pandemic and the unprecedented lockdown restrictions, the RSBs have demonstrated resilience and adaptability to fulfil the Conditions of Delegation and the delegated tasks. Their measures have included replacing face to face visits and manual processes with online remote working. However, the RSBs' monitoring of audit quality has inevitably taken more time. As a result, in 2020, ACCA, CAI and ICAEW reported that they were unable to complete their monitoring of all UK audit registered firms within the required six-year timescale<sup>13/14</sup>. These RSBs have voluntarily prepared plans identifying how they intend to catch up with the outstanding inspections as well as conducting all those due in 2021. We will monitor their progress against these plans.

Our other key findings, recommendations and requirements for improvement are summarised below. We have agreed action plans with each RSB to ensure that our requirements and recommendations are implemented on a timely basis.

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<sup>12</sup> The Delegation Agreement states that the RSB will comply with the Conditions set out in Appendix 3 of the Delegation Agreement: *Audit Monitoring Conditions* <https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements>.

<sup>13</sup> This is required by Condition 5 of Appendix 3 of the Delegation Agreement to meet the provisions of Regulation (EU) No 537/2014 Article 26 paragraph 2.

<sup>14</sup> While ICAS and CAI measure the six-yearly cycle from the previous visit commencement date, ICAEW measures this period from the end of the month in which the previous visit commenced and ACCA measures this period from the date of the previous inspection closing meeting.

RSB	Findings and Recommendations
<b>ACCA</b>	<p>Our oversight identified that ACCA could challenge auditors more on identified deficiencies to promote higher quality audits. We also observed that, whilst Senior Compliance Officers document conclusions, there is insufficient documentation of the work performed.</p> <p>Our oversight last year led to a requirement to put a policy in place for the handling of data by ACCA's Audit Monitoring Committee members. ACCA plans to implement a new document classification model. Our future oversight will include a review of its effectiveness.</p>
<b>ICAEW</b>	<p>Last year the FRC required ICAEW to implement a revised risk-based approach to selecting files for audit quality monitoring at the seven largest firms. The approach should be top-down, in that each time a large firm is visited, the file selection should be made from the whole firm's audit portfolio list, reflecting the risks to audit quality. ICAEW has developed proposed changes to deliver such an approach. ICAEW's measures will be additionally aimed at the risks to the public interest, including where there could be broader market and social impacts from an inadequate audit. Our future oversight will include an assessment of the effectiveness of ICAEW's piloting of their updated processes.</p> <p>Our oversight last year also led to requirements for changes to ICAEW's sampling processes. ICAEW has revised its procedures and is piloting some of the changes. We will continue to assess the implementation of the updated procedures.</p>
<b>CAI and ICAS</b>	<p>Last year we found that ICAS and CAI did not include the grades given to each audit file inspected in their final inspection reports to the firms. We observed that they did so this year.</p>

## Monitoring of Enforcement<sup>15</sup>

We continued to assess the RSBs' processes and procedures across all stages of their enforcement process, from complaints reporting through to sanctions. We based this on samples of current and closed cases. We also followed up on the RSB's progress on open cases that we had reviewed in the previous year.

Our enforcement monitoring inspections did not identify any systemic issues that raise concerns about the compliance of the RSBs with the Enforcement Conditions under the [Delegation Agreement](#).

A summary covering our findings and key areas for improvement in relation to enforcement, which apply to CAI, ICAEW and ICAS, is below. We have agreed action plans to ensure that our requirements and recommendations are implemented on a timely basis.

<sup>15</sup> The Delegation Agreement states that the RSB will comply with the Conditions set out in Appendix 4 of the Delegation Agreement: *Enforcement Conditions* <https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements>



RSB	Findings and Recommendations
<b>CAI</b>	Last year we recommended that CAI ensures that it progresses cases with greater consistency. Accordingly, CAI has incorporated the FRC's recommended changes to its draft Case Handling Guidelines. We will continue to review the Guidelines in 2021/22.
<b>ICAEW</b>	<p>Last year we recommended that ICAEW document its key processes and procedures in relation to its enforcement work. This is necessary to mitigate the risk of loss of knowledge through future unanticipated events, such as when key personnel leave the team. In 2020/21 we reviewed process documentation provided by ICAEW (alongside its relevant Byelaws and Regulations). The FRC considers that the documentation provided does not adequately document end to end processes; nor does it provide guidance on the general process or key steps the team should follow when making and documenting key judgements.</p> <p>ICAEW is producing a disciplinary and regulatory handbook which will set out the process at each stage of an investigation. As part of our oversight during 2021/22 we will assess whether the handbook meets the need identified in our recommendation.</p>
<b>ICAS</b>	Last year we required ICAS to make some changes to its investigative process to ensure the maximum level of independence in its decision making, both at an executive and committee level. From our reviews this year we are content that ICAS has adopted a process which demonstrates independence in its selection of committee members allocated to its enforcement related panels. We will continue to monitor ICAS's Adjudication Committee meetings in 2021/22. In doing so we will seek assurance that the meetings are led by the appointed Chair, and that decisions regarding the appointment of sub-committee members by the Chair are demonstrably independent.

## Continuing Professional Development (CPD)<sup>16</sup>

This year we performed a 'deep dive' review of RSBs' procedures for regulating CPD. We included an assessment of how the RSBs had incorporated the revisions to International Education Standards IES 7, Continuing Professional Development, and IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements.

All RSBs looked at CPD as part of their audit quality monitoring. CAI, ICAEW and ICAS, which are RSBs whose registered auditors include firms that audit PIEs, limited their monitoring of CPD compliance to non-PIE audit firms.

The European Audit Regulation and Directive required the FRC as the Competent Authority to retain responsibility for assessing firmwide procedures, including those for CPD at firms undertaking PIE audits. The RSBs were informed that the FRC would review firmwide procedures for CPD at PIE firms and that the RSBs did not need to review firmwide procedures

<sup>16</sup> The Delegation Agreement states that the RSB will comply with the Conditions set out in Appendix 2 of the Delegation Agreement: *Continuing Professional Development Conditions*  
<https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements>.



at these firms. Our oversight this year has identified a potential gap that inadvertently arose from these communications.

The FRC is responsible for firmwide procedures at PIE audit firms. However, at PIE audit firms where the FRC reviews firmwide procedures, it is not required to test the CPD compliance of non-PIE auditors. Setting CPD rules and checking compliance with them are tasks delegated in their entirety to the RSBs under the Delegation Agreement. We have clarified with CAI, ICAEW and ICAS that, should they wish to rely on work performed by the FRC in relation to CPD or any of the delegated tasks, they should check that the FRC’s monitoring is sufficient to cover the RSBs’ responsibilities for both PIE and non-PIE auditors.

Our other key findings, recommendations and requirements for improvement, which apply to CAI and ICAEW, are summarised below.

RSB	Findings and Recommendations
<b>CAI</b>	Although CAI was meeting its CPD compliance monitoring responsibilities effectively, we recommend that its documentation of evidence be improved, to support its conclusions on whether CPD undertaken by its registered statutory auditors is relevant and adequate based on the reason for the grade awarded.
<b>ICAEW</b>	We found scope for improvement in ICAEW’s monitoring of compliance with its CPD requirements. We recommend that ICAEW include more checks on a greater number of its registered statutory auditors and that there should be more rigorous follow up of non-compliance. Sample selection for CPD compliance testing should be risk based in the public interest. Better communication between the teams that monitor CPD and those with knowledge of members’ responsibilities could inform targeted CPD compliance checks and facilitate effective follow up. ICAEW has confirmed that it plans to change its systems and processes for monitoring CPD compliance.

### ***Performance against Key Performance Indicators (KPIs) for annual review activity and audit quality monitoring***

The RSBs have reported on three KPIs, two on annual review activity and one on audit quality. Appendix 3, Condition 3 of the Delegation Agreement states: ‘*The RSB shall agree KPIs with the FRC which focus on the improvement of audit quality. When targets are not met the RSB may be required to conduct a root cause analysis*’.

The bodies reported their performance against the KPIs as follows:

**KPI:** 100% of Registered Auditors subject to an accelerated audit monitoring visit ordered by the relevant RSB Committee receive that visit within the timeframe specified by the relevant RSB Committee.

**Performance reported by the RSBs:**

ACCA	Met (apart from firms that could not accommodate remote visits within the timeframe due to the Covid-19 pandemic).
ICAEW	Met (apart from firms that could not accommodate remote visits within the timeframe due to the Covid-19 pandemic).
ICAS	Met
CAI	Met (apart from firms that could not accommodate remote visits within the timeframe due to the Covid-19 pandemic).

**KPI:** In cases where the audit monitoring visit report is submitted to the relevant RSB Committee for a decision, 100% of reports are issued by the registering RSB to Registered Auditors within 180 days from the date the audit monitoring visit is concluded.

**Performance reported by the RSBs:**

ACCA	ACCA confirmed that this KPI was not met. The reasons for delays included matters that were within ACCA's control (e.g. resourcing) but also outside its control (e.g. illness and Covid-19 related matters which impacted on hearings being delayed). We accept that it has been a difficult year for all the RSBs and that there were certain factors outside ACCA's control which resulted in this KPI not being met. However, as some delays were caused by issues within ACCA's control we have noted that in these circumstances KPI B was not met.
ICAEW	Met
ICAS	Met
CAI	Met

**KPI:** 75% of completed audit file reviews should not require more than limited improvements. Where completed audit file reviews by the registering RSB on a registered auditor require more than limited improvements, the RSB will apply guidance agreed with the FRC to determine whether a root cause analysis should be conducted by the firm.

**Performance reported by the RSBs:**

ACCA	Met
ICAEW	Met
ICAS	Met
CAI	Met

### **Key findings from oversight and monitoring of RQBs**

Social distancing requirements and other restrictions in place during the Covid-19 pandemic meant that traditional classroom and examination hall formats were not possible. The option of postponing examinations and delaying qualification was considered unfair by students and firms because the Covid-19 issues were not of their own making. The RQBs therefore introduced new systems and procedures to allow teaching and examinations to continue effectively. They introduced remote invigilation at short notice. Whilst not new practice, remote invigilation was not widely used by the accountancy bodies before the Covid-19 pandemic. It was also largely a new experience for students.

Some students sitting exams under remote invigilation suffered disruption, for example from poor internet connections, software problems or other interruptions. The RQBs provided help to these students to resolve issues during the exams and gave additional consideration at the time of marking to any students who submitted verifiable evidence of IT problems that had hindered their exam performance. We concluded that the RQBs took appropriate steps to deal fairly with any issues that arose and have maintained the security of the exams by minimising

any opportunities for cheating. Overall, we consider that the introduction of remote invigilation by the RQBs has been successful. Some RQBs may continue to offer students the option of remote invigilation after the pandemic.

Despite the challenges that arose from the pandemic, our oversight and monitoring of RQBs did not identify any systemic issues that affected their compliance with the professional qualification requirements under [Schedule 11 of the Act](#).

We have summarised a key area for improvement, which applies to ICAS, below.

RQB	Findings and Recommendations
ICAS	<p>Although we consider that the integrity of ICAS's examinations was maintained and that subsequently, during the year, process improvements were made, ICAS did not give itself enough time initially to test the systems thoroughly and allow students and staff to prepare for the changes in exam delivery.</p> <p>ICAS initiated a programme of continuous improvement for subsequent exam sittings, and has informed us that this has resulted in better policies and procedures. As part of our future oversight, we will assess the changes made by ICAS through its programme of continuous improvement to ensure there are effective controls for the delivery of examinations.</p>

### *Rules and regulations of the professional bodies*

We have carried out reviews of changes proposed by the professional bodies to their own rules and regulations. This is to enable us to approve them or, when required, to advise the Privy Council Office that the changes may be approved. All the recognised professional bodies have made changes to their rules and regulations this year and we are satisfied that these changes will be beneficial and improve the governance of these bodies in the future.

Amendments made by the bodies included amendments to audit regulations for the changes to the eligibility criteria for statutory auditors arising from EU Exit. We reviewed and commented on these amendments and asked for further changes where we were unable to agree with a body's initial proposals. Where Privy Council approval of changes is required under the terms of a body's Royal Charter, our comments are submitted as advice to the Privy Council Office. In other cases, we communicate with the body directly.

A body's rules and regulations are relevant to all its members, firms, and affiliates. It is helpful for us to see all rule amendments, including those not related to audit, and to be able to consider what impact and relevance they may have on our regulatory work. In assessing the changes, we consider whether the amended rules and regulations are clear and address any problems that a body has identified with its existing rules. In doing so we take the findings from our oversight of governance into consideration.

We welcome the rule changes that some bodies have made during the year to introduce clearer and non-gender specific language, make provision for holding online meetings where participants can attend and vote remotely and improve governance arrangements.

## ***Changes arising from EU Exit***

### ***Mutual Recognition of Professional Qualifications***

EU Exit means that there is no longer mutual recognition of audit qualifications between the UK and EU Member States although where EU auditors have already been granted audit rights in the UK, this will continue. The UK-EU Trade and Cooperation Agreement does not grant mutual recognition of professional qualifications, although it does contain a mechanism for working towards such arrangements on an EU-wide basis. The FRC has advised BEIS on policy and the regulatory requirements for establishing mutual recognition of auditing qualifications. Our future work in this area includes further policy advice on determining priority jurisdictions, where bilateral agreements with the UK would be beneficial. Such agreements maintain and improve audit quality by making it easier for firms to recruit auditors with international experience. The agreements may also enhance the status and wider recognition of the UK audit qualification.

### ***Audit Firm Ownership***

The eligibility criteria for ownership and management of an audit firm now excludes individuals with European audit qualifications unless as at 31 December 2020 they had applied to be, or already are, UK statutory auditors. This has meant that some audit firms have had to alter their ownership or governance structures. We have worked with BEIS on a programme of communications to prepare firms for the changes they may need to make to minimise any disruption to their business.

### ***Cooperation with the Republic of Ireland***

Maintaining the relationship with the Republic of Ireland (ROI) and minimising disruption to cross border audits has been an important area of work. We have successfully worked with the Irish Auditing and Accounting Supervisory Authority (IAASA) and the UK and ROI professional bodies to negotiate a memorandum of understanding on reciprocal arrangements with IAASA and to recognise in the UK the professional accountancy qualification awarded by CPA Ireland. Nevertheless, EU Exit means that UK statutory auditors and audit firms now require to be separately registered in Ireland to carry out audits of Irish entities.

Very few UK firms have chosen to continue audit registration in Ireland and there is now a greater degree of divergence between the regulatory regimes in Ireland and the UK than existed before EU Exit. In ICAEW's view this has caused a disproportionate amount of work in meeting IAASA's requirements by comparison with the volume of Irish audit work still carried out by those audit firms it has registered. Consequently, ICAEW applied to IAASA for revocation of its registration as a Recognised Accountancy Body (RAB) and Prescribed Accountancy Body in Ireland and the revocation took place on 21 July 2021. Any ICAEW firms wishing to do audit work in Ireland will now need to register with another RSB that is still also a RAB. We have confirmed that appropriate re-registration arrangements are in place for these firms.

Given the significant economic links between the UK and Ireland, we expect to continue to work closely with IAASA on matters of mutual interest.

### 3. Oversight of Local Audit

The Local Audit and Accountability Act 2014<sup>17</sup> (LAAA) established the regulatory regime for the audit of local government and National Health Service (NHS) bodies, commonly referred to as local audit. These requirements broadly replicate the requirements in the Act for company audit.

The Ministry of Housing, Communities and Local Government (MHCLG) has established a Local Audit Monitoring Board, responsible for overseeing the implementation of and identifying any risk to the local audit regime. The FRC, together with the local audit RSBs and other bodies involved in the oversight and regulation of local audit, are members of this Board. Its objective is to maximise the regime's effectiveness and identify and manage risks through engagement with the participating entities.

The Secretary of State for MHCLG has delegated to the FRC responsibility for overseeing the RSBs and RQB for local audit. The FRC is responsible for the recognition of local audit RSBs<sup>18</sup>.

RQBs for local audit are bodies approved either under the Act for company audit or under the LAAA for local audit. The Chartered Institute of Public Finance and Accountancy (CIPFA) is an RQB for local audit only and is the only RQB recognised under the LAAA.

It is the responsibility of the RSBs for local audit to approve and register audit firms to undertake local audit work, and to approve individuals within those firms that both meet the statutory qualification requirements and are judged to have the appropriate level of competence to carry out local audits on behalf of the registered firm (Key Audit Partners<sup>19</sup>). ICAS surrendered its RSB status for local audit on 31 December 2020<sup>20</sup>. Since then, ICAEW has been the only RSB that can register firms and Key Audit Partners for local audit. Individuals and audit firms that wish to be appointed as a local auditor in the UK must be registered with ICAEW. Accordingly, as a part of the approval process under the LAAA, ICAEW must have rules to show that each such individual:

- holds an audit qualification for local audit; and
- has an appropriate level of competence to carry out local audits.

As the local audit RSB, its rules should make clear that, as a minimum:

- (i) a Key Audit Partner must be able to demonstrate the attainment of at least two years post qualification experience of local audit and/or of similar audit work in a supervisory role which includes responsibility for significant judgements in the audit of the historical financial information of local public bodies. All that experience must have been obtained within the previous six years; and
- (ii) during the two years preceding the application, the individual must have undertaken adequate CPD appropriate to maintaining and developing competence for someone

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<sup>17</sup> [Glossary Reference 3.1](#)

<sup>18</sup> Sections 1252 and 1253 of the Act. Section 1252(10) and paragraph 10(1) of Schedule 13 of the Act, as they apply to local audit by virtue of Schedule 5 to the LAAA, require the FRC to report to the Secretary of State once in each calendar year on the discharge of its powers and responsibilities.

<sup>19</sup> [Glossary Reference 3.2](#)

<sup>20</sup> <https://www.frc.org.uk/getattachment/653b65d1-7c23-4c31-9ca7-6f730fd88d64/RSB-Revocation-Order-November-2020.pdf>

seeking the role of a Key Audit Partner.

As part of our membership of the Local Audit Monitoring Board, we are considering ways of reducing any barriers that prevent existing qualified auditors becoming Key Audit Partners. The aim is to increase the availability of suitably skilled auditors, thereby supporting the sustainability of the local audit market and good quality, timely audit.

### ***Key findings from local audit oversight and monitoring***

Oversight of local audit has focused on implementation of our recommendations on registering firms for local audit, as well as key audit partners, and the monitoring of CPD. We also assessed whether the RQB qualifications continued to meet the requirements for local audit as set out in the LAAA.

We recommend that ICAEW continues to enhance its top-down<sup>21</sup> risk-based approach to its file selection for the local audit inspections to take account of the developing approach on corporate audits. ICAEW's Audit Visit Manual sets out how its quality assurance reviewers should select files for inspection at a firm. ICAEW should further adapt its sample size methodology for local audit inspections, similar to the sample size approach adopted for corporate audit inspections.

Notwithstanding these recommendations we are satisfied that ICAEW has adequate procedures in place to register firms and individuals to undertake local audit in line with its rules. ICAEW devotes sufficient resources to meet its obligations as a local audit RSB.

We engaged with CIPFA to understand and consider its response to the Covid-19 pandemic on the delivery of its local audit RQB responsibilities. We continued our previous work on the effectiveness of the governance arrangements. Additionally, we observed the operation of governance processes and met with members of governance boards and committees. Our oversight and monitoring work did not identify any issues that raise concerns about CIPFA's compliance with the RQB requirements of the LAAA.

### ***The role of the Audit, Reporting and Governance Authority in the oversight of Local Audit***

We have continued to engage closely with MHCLG in its work with stakeholders, including ICAEW and CIPFA, to support the Government's proposals for local audit. Under these proposals the Audit, Reporting and Governance Authority (ARGA – the new regulator being established to replace the FRC) will have new powers over local audit, mirroring the regulator's existing powers in relation to the audit of PIEs. To improve the effectiveness and transparency of local audit, these measures include the establishment of a new function within ARGA to take on responsibility for local audit-related work, including oversight and inspection.

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<sup>21</sup> The approach should be top-down, in that each time a large firm is visited, the file selection should be made from the whole firm's audit portfolio list, reflecting the risks to audit quality.



## 4. Oversight of the Actuarial Profession

The Professional Oversight Team carries out the FRC's non-statutory oversight of actuarial regulation through a memorandum of understanding with the IFoA. We discharge our oversight responsibilities, in consultation with the IFoA, based on the risk to the public interest.

Our work in 2020/21 included reviews of the IFoA's new actuarial monitoring scheme, along with its CPD and practising certificate regimes. We also viewed the IFoA's examination platform to observe the marking process. We continued to receive quarterly updates on the IFoA's voluntary Quality Assurance Scheme for firms. The level of employer accreditation to the scheme has remained similar to last year. There are 33 UK employers comprising 26% of the IFoA's UK membership and 71% of Practising Certificate holders.

No major issues were identified through our oversight and we have no open recommendations in relation to work carried out in 2020/21.

The IFoA updated us on initiatives to promote awareness of actuarial regulation and standards, enabling us to close our related prior year recommendation. We closed two further prior year recommendations, relating to the processes for approving practising certificate applications and for training examination markers.

Although five other prior year recommendations remain open, connected with Disciplinary Scheme rules and examiner performance reviews, we are satisfied with the IFoA's progress.

The Privy Council Office consulted us on proposals from the IFoA to amend its byelaws and regulations that apply to its membership categories and Council retirement terms. We plan to do further work to confirm that the information on how the categories differ is clear.

## 5. Oversight of Governance Arrangements

Our oversight of the bodies'<sup>22</sup> governance arrangements seeks to identify improvements in the public interest. It is based on the core principles of independence, effectiveness, fairness and transparency.

This year, we focused on following up our prior year recommendations. Our work also included observing some online Board and Committee meetings, reviewing the reliability of bodies' IT systems during lockdown, and updating our view of the transparency of their governance procedures.

### *Key findings from governance oversight*

All bodies have the necessary governance structures and arrangements in place to manage and oversee their regulatory activities. They have also made progress towards addressing our prior year recommendations. Last year, we recommended that the bodies should do more to raise the profile of lay roles in their governance arrangements and to promote how public interest is considered in all regulatory matters. There is still more that some of the bodies can do in this area.

Other than AIA and CAI, where our substantive discussions about IT systems will take place in 2021/22, all the bodies provided assurance of their respective approaches to managing information security risks.

We did not find significant shortcomings in the openness of bodies' governance arrangements and governance activity. All the bodies displayed clear information about their purpose, constitution, and structure. All had taken steps, with some still in progress, to improve transparency on their public website. Most publish regulatory meeting minutes and annual regulatory reports.

We have summarised key findings and recommendations, which apply to AIA, below.

Professional Body	Findings and Recommendations
<b>AIA</b>	During 2020/21 AIA introduced a process, to commence later in 2021, to assess the performance and function of its committees. We recommend that AIA strengthens its procedures for the chairing of its governance committees. AIA should also improve the use of technology in its meetings and make improvements to the drafting of committee papers.

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<sup>22</sup> In this section only, the term body (bodies) refers to the RSBs, RQBs and the IFoA.



## 6. Regulation of Third Country Auditors

In the UK, the FRC has statutory powers delegated by Government for the regulation of non-UK auditors of non-UK incorporated companies whose securities are traded on a regulated market in the UK (Third Country Auditors or TCAs). All TCAs must register with the FRC before they sign UK audit reports. Where a TCA is not subject in its home country to oversight, quality assurance review and discipline systems which are recognised by the UK as being equivalent, the FRC applies its own systems of oversight and quality assurance review. The underlying principle is that all auditors of companies whose securities are traded on UK-regulated markets should be subject to equivalent regulation, regardless of where the relevant issuer is incorporated.

At 31 March 2021 there were 93 registered TCAs from 33 countries.

The EU Exit Transition Period ended on 31 December 2020. All non-UK audit firms that audit companies listed on a regulated market in the UK must now register as TCAs. We upgraded our own systems for registration of third country auditors to manage the anticipated increase in applications. Since the end of the Transition Period, we have begun to receive and process new applications from firms in the European Economic Area (EEA) and expect around 60 EEA firms to register as TCAs.

The FRC also has the power to remove a TCA from the UK register of TCAs under certain circumstances, as set out in the Act and in the Statutory Auditors and Third Country Auditors Regulations 2013. The Third Country Auditor Register Procedures, available on the FRC website, set out the procedures followed by the FRC in such instances.

### *Key findings from audit quality monitoring of TCAs*

The FRC is required to review on a cyclical basis the audit quality of TCAs from jurisdictions which have not been assessed by the Government as having systems of audit regulation equivalent to that of the UK. The FRC is also required to carry out such reviews for jurisdictions with systems of audit regulation assessed as needing limited modification to achieve equivalence status, and which have been assessed as likely to be implemented within a specified period (referred to as transitional third countries).

We apply a system which is proportionate to the risk profile of the issuer and the jurisdiction. Our audit quality monitoring of TCAs focuses on those companies considered to be of significance to UK investors.

In the year to 31 March 2021, the travel restrictions resulting from the Covid-19 pandemic meant that only one inspection of a TCA firm was possible. We carried it out using remote methods. We also use alternative methods, rather than direct inspection of audit files, to undertake reviews of TCAs which audit lower risk issuers.

Carrying out inspections of audit firms widely scattered across the world poses legal and practical challenges in some jurisdictions. Typically, each firm has only one or two audited entities that fall within the scope of our monitoring obligations. Local confidentiality laws can hinder access to audit working papers for the purposes of the FRC's inspection. We endeavour to overcome these challenges when they arise. We require TCAs to confirm, at the point of registration and during annual renewals of registration, whether there are legal restrictions that would preclude the FRC from performing an inspection of its relevant audits. Where such restrictions exist, we require the TCA to resolve them. Methods of doing so include obtaining

consent from the audited entity or redacting certain information in audit working papers to satisfy local confidentiality laws. However, TCAs are not always able to resolve such restrictions. In these cases, the FRC is not able to register the firms as TCAs and in the case of those TCAs already registered, de-registration procedures will be initiated.

### *TCA changes arising from EU Exit*

Throughout 2020/21 the FRC continued its work to ensure that the UK's TCA framework remained fit for purpose after the end of the Transition Period on 31 December 2020. This was important in ensuring that EU audit firms auditing companies listed on a regulated market in the UK could register as TCAs.

To ensure that the UK audit regime remained operable without change after the end of the Transition Period, relevant EU law was incorporated into UK law as "retained EU law". This necessitated changes to certain aspects of UK legislation which were made by Statutory Instruments. There have also been changes to the audit rules of the RSBs and to the FRC's own procedures.

The FRC has communicated with UK firms to ensure that they are aware of the need to register with every EU competent authority where they audit a UK company that is listed on a regulated market in an EU country.

### *Equivalence and Adequacy*

During 2020, our focus was on assessing the equivalence of the audit regulatory frameworks and the adequacy of arrangements for sharing audit working papers that are in place in the European Economic Area (EEA) countries, as they were shortly to become third countries to the UK. Our assessments supported the Government's decision to grant both equivalence and adequacy to all EEA states and thereby provide certainty for a smooth transition for EEA companies listed on UK regulated markets and their auditors.

We also prepared a compendium of information to support the assessment of the UK's applications to the European Commission equivalence and adequacy. The Government has submitted its applications and the European Commission has yet to make its decisions. Until the decisions are made the UK will be treated as not having an equivalent audit regime nor adequate data protection measures. This will mean that UK audit firms seeking registration in EEA states will be subject to a longer application process. Once registered, UK audit firms will be subject to inspection procedures by EEA competent authorities. We remain ready to assist BEIS when the European Commission considers the UK's applications.

For non-EEA countries, the Government has adopted all equivalence and adequacy decisions taken by the European Commission whilst the UK was still a member of the EU. From 31 December 2020, all new applications must be made directly to the Government who will determine which status will be granted. An assessment framework has been developed by the FRC to assist BEIS in reaching equivalence and adequacy decisions.

## 7. Our Oversight of the Accountancy Profession

In 2003, the FRC entered a non-statutory, independent oversight arrangement with five professional bodies under an exchange of letters with the Consultative Committee of Accountancy Bodies (CCAB). Under this informal agreement, the FRC oversees the professional bodies' regulation of the accountancy profession on a voluntary basis. The ways in which we have exercised this oversight are explained below.

### *Complaints handling*

Currently most of the FRC's oversight work that is specific to accountancy relates to handling complaints from individuals who are dissatisfied with the way in which a complaint made to one of the CCAB professional bodies or CIMA (the bodies) has been handled. When such complaints are referred to the FRC, any ensuing reviews focus on whether the body followed its own rules and procedures in its consideration of the complaint. Where the FRC finds that a body has not followed its own procedures, it makes a recommendation to the body to address any failings.

In 2020/21 we completed ten reviews of complaints handled by the professional accountancy bodies, with five complaints received in 2020/21 fully reviewed after 31 March 2021. Our reviews resulted in recommendations in relation to enforcement procedures at two of the bodies.

None of the complaints reviewed raised issues of significant mishandling. The volume of complaints received from members of the public regarding the way in which a professional body has dealt with a complaint about one of its members remains constant. This year we have received more complaints from student members of the bodies, the majority of which relate to examination processes which were affected by the Covid-19 pandemic. In view of the size of the bodies' student population, the number of complaints received is not significant.

We are collecting information on member complaints received by the bodies, so that we can monitor trends.

### *Taking forward the Government's proposals in its consultation: Restoring Trust in Audit and Corporate Governance<sup>23</sup>*

The Independent Review of the FRC recommended that the new regulator continues to have oversight over the professional accountancy bodies but found that the current voluntary arrangements needed to be strengthened. We are continuing to work with BEIS to develop memoranda of understanding with the professional bodies, along with a 'backstop' statutory power, to ensure that the FRC can enforce recommendations that are in the public interest. The details of the scope of this oversight function and who will fall within its remit will be subject to the outcome of further consultation with BEIS and the professional bodies.

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<sup>23</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/970673/restoring-trust-in-audit-and-corporate-governance-command-paper.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970673/restoring-trust-in-audit-and-corporate-governance-command-paper.pdf) Chapter 11.1

## Glossary Links to Delegation Agreements and Key Relevant Legislation

### 1. Key References in the Executive Summary

Glossary Reference	Delegation Agreement
1.1	<b>Delegation Agreements</b> <a href="https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements">https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/delegation-agreements</a>

Glossary Reference	Legislation
1.2	<b>Companies Act 2006 Schedule 10</b> <a href="https://www.legislation.gov.uk/ukpga/2006/46/schedule/10">https://www.legislation.gov.uk/ukpga/2006/46/schedule/10</a>
1.3	<b>Companies Act 2006 Schedule 11</b> <a href="https://www.legislation.gov.uk/ukpga/2006/46/schedule/11">https://www.legislation.gov.uk/ukpga/2006/46/schedule/11</a>

## 2. Key References supporting our oversight of Statutory Audit

Glossary Reference	Legislation
2.1	<p>We report annually:</p> <ul style="list-style-type: none"> <li>• <b>as the Competent Authority for statutory audit in the UK</b> on our activities under the EU Regulation 537/ 2014(Audit Regulation), the Statutory Auditor and Third Country Auditors Regulations 2013 (SATCAR 2013) and the Statutory Auditor and Third Country Auditor Regulations 2016 (SATCAR 2016). Since 2016, audit regulation tasks under this legislation are carried out by the FRC in its capacity as Competent Authority and by RSBs as delegates of the FRC, under terms set out in <a href="#">Delegation Agreements</a>. The legislative amendments applicable to our future work, which reflecting the UK's departure from the European Union, are the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 and the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2020<sup>24</sup>. Under the European Union (Withdrawal Agreement) Act 2020 the Audit Regulation is retained EU law and continues to apply in the UK as modified; and</li> <li>• <b>as the Secretary of State delegate</b> under Part 42 of the Companies Act 2006 we report on the accountancy bodies that are responsible for: <ul style="list-style-type: none"> <li>i) supervising the work of statutory auditors as set out in Schedule 10 to the Act;</li> <li>ii) offering an audit qualification as set out in Schedule 11 to the Act; and</li> <li>iii) the enforcement of statutory requirements under Part 42 of the Act.</li> </ul> </li> </ul> <p>Section 1252(10), and paragraph 10(1) of Schedule 13 to the Act, require the FRC to report annually to the Secretary of State on the discharge of these delegated powers and responsibilities.</p>
2.2	Regulation 3(12) of the Statutory Auditors and Third Country Auditors Regulations 2016.
2.3	The Statutory Auditors and Third Country Auditors Regulations 2016 2016

<sup>24</sup> The legislative framework for the competent authority has been amended to reflect the UK's departure from the European Union. This legislation includes the Statutory Auditors, Third Country Auditors and International Accounting Standards (Amendment) (EU Exit) Regulations 2019 (SI 2019/1392); the International Accounting Standards, Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2020 (SI 2020/335); the Companies and Statutory Auditors etc. (Consequential Amendments) (EU Exit) Regulations 2020 (SI 2020/523); the Statutory Auditors and Third Country Auditors (Amendments) (EU Exit) (No. 2) Regulations 2020 (SI 2020/1247); and the European Grouping of Territorial Cooperation and Limited Liability Partnerships etc (Revocations and Amendments) (EU (Exit) Regulations 2021 (SI 2021/153).

### **3. Key References supporting our oversight of Local Audit**

<b>Glossary Reference</b>	<b>Legislation</b>
3.1	The Local Audit and Accountability Act 2014 sets out the requirements in England for the regulation of auditors of local and certain other public bodies (principally local authorities and health bodies other than Foundation Trusts).
3.2	In this document the term “Key Audit Partner” is defined in paragraph 28(5) of Schedule 5 to The Local Audit and Accountability Act 2014 as “an individual identified by the firm as being primarily responsible for local audits” and should be the person authorised by the firm to sign the audit opinion on behalf of the firm. The “Key Audit Partner” need not be a partner in his or her firm.

### **4. Key References supporting our regulation of Third Country Auditors**

<b>Glossary Reference</b>	<b>Legislation</b>
4.1	The UK requirements are established within the legal framework set out in the <a href="#">Companies Act 2006</a> , the Statutory Auditors and Third Country Auditors Regulations 2013 ( <a href="#">SI 2013/1672</a> ), the Statutory Auditors and Third Country Auditors Regulations 2016 ( <a href="#">SI 2016/649</a> ) (as amended) and the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 ( <a href="#">SI 2019/177</a> ) as amended.



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