

Improving Audit Quality in WeBa Countries through Regional Cooperation

Jon Hooper, Senior Manager, ICAEW

May 16, Vienna, Austria

CFRR >>>

Centre for Financial
Reporting Reform



**REPARIS
FOR SMEs**

REPARIS FOR SMEs is funded by



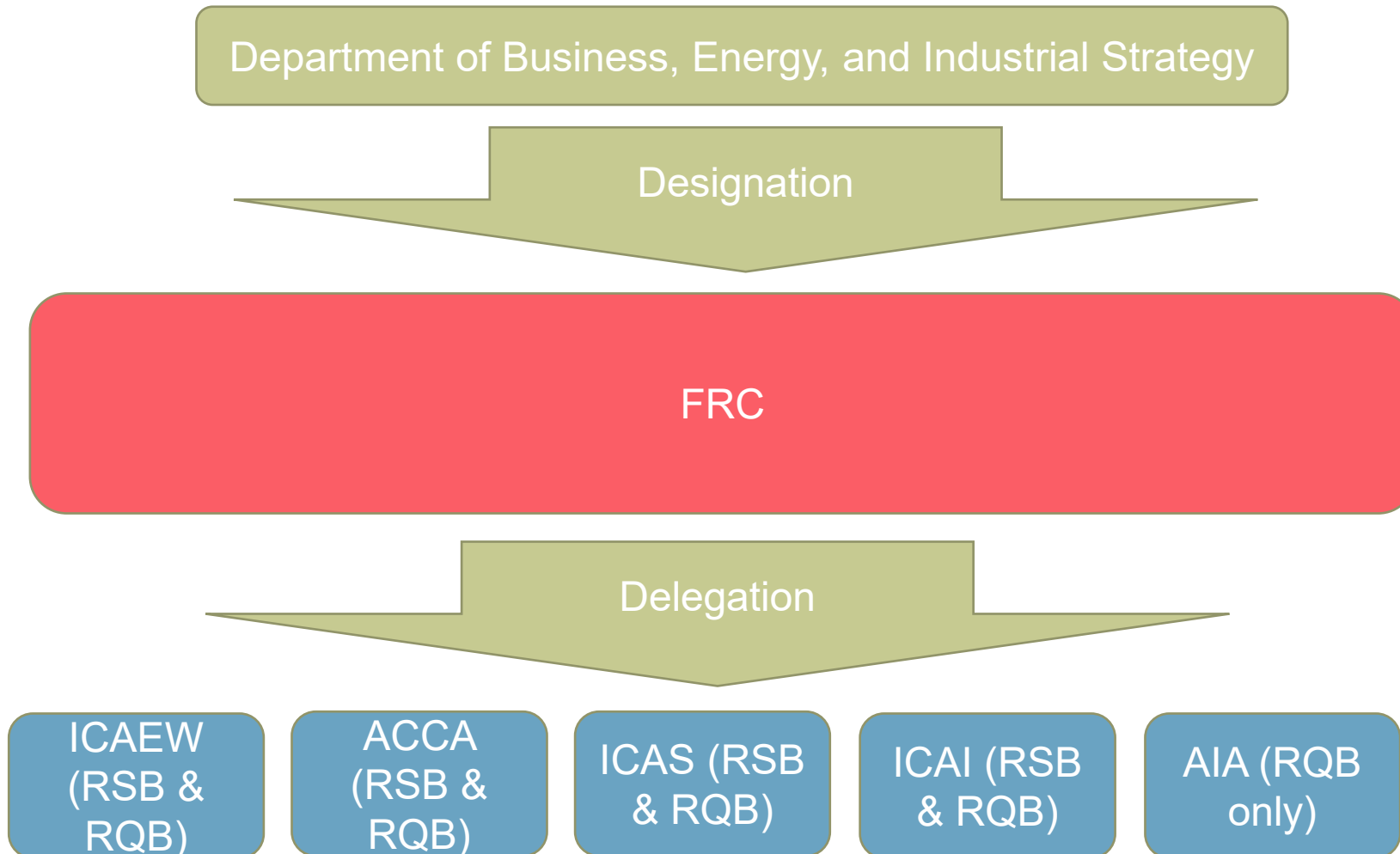
European Union



UK Audit Regulatory Structure

Government - FRC (ARGA) - ICAEW

Current structure of audit regulation



Government designates FRC as Competent Authority

FRC recognizes and inspects 4 RSBs who are also RQBs and one additional RQB. It can sanction these PAOs.

FRC registers and inspects auditors and audits of PIEs. It can refer auditors to the FRC I&D process.

RSBs inspect auditors and audits of non-PIEs. They can sanction auditors and refer them to the RSB's I&D process.

Role of government within audit regulation

The Secretary of State (Department) for Business, Energy and Industrial Strategy is responsible for legislation and sub-legislation regarding audit regulation. This is done through the Companies Act.

There have been no major changes in law since Brexit – EU law no longer applies directly (e.g. regulations) but the Companies Act has not been amended post-Brexit in this area.

Delegation by government to FRC

The UK Government has designated the FRC as the Competent Authority with the ultimate responsibility for the performance and oversight of the **audit** regulation.

The FRC reports annually on the results of this work in a Report to the Secretary of State for Business, Energy and Industrial Strategy.

FRC concludes 'Delegation Agreements' with all 5 PAOs that are RSBs/RQBs.

By agreement with the chartered accountancy bodies, the Professional Oversight team exercises additional independent oversight of the regulation of the **accountancy** profession.

FRC's statutory delegated responsibilities

The FRC's statutory responsibilities for oversight of the regulation of statutory auditors are discharged by:

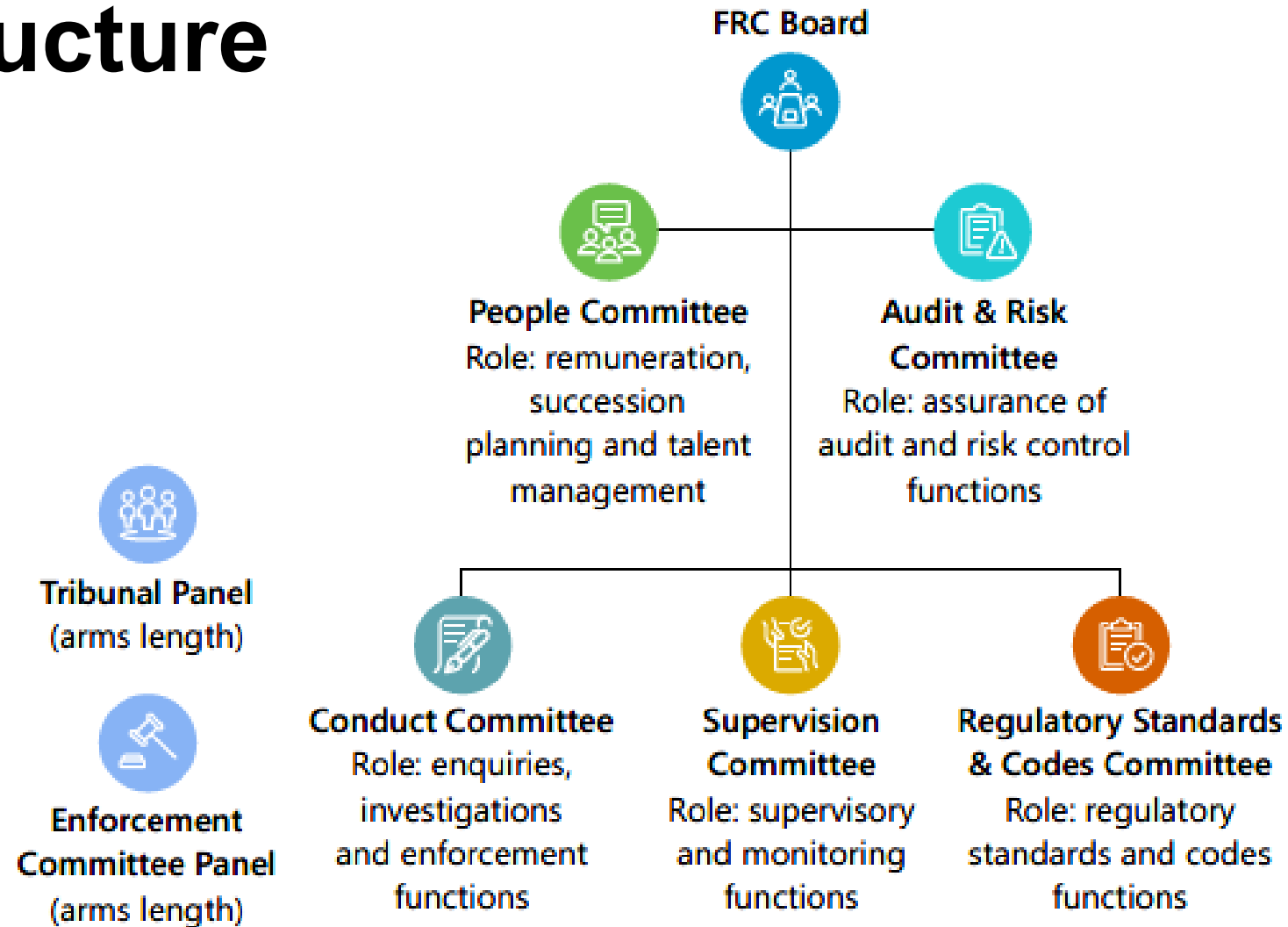
- recognising professional bodies to act as recognised supervisory bodies ("RSB") and/or to offer a recognised professional qualification for statutory auditors ("recognised qualifying body" or "RQB");
- assessing periodically that each RSB carries out the key Regulatory Tasks delegated to it by the Delegation Agreement. These functions relate to registration/authorisation of statutory auditors and audit firms, audit monitoring (quality inspections), complaints and discipline, and continuing professional development ('CPD');
- assessing periodically that the RSBs and RQBs continue to meet the requirements for recognition in the Companies Act 2006 as amended;
- carrying out of functions not delegated to the RSBs such as independent monitoring of audits of public interest entities and independent investigation and disciplinary arrangements for public interest cases;

FRC delegated powers

The FRC has the following statutory powers in relation to the oversight of audit regulation:

- to recognise and derecognise RSBs and RQB;
- to require information from RSBs and RQB;
- to assess whether the RSBs continue to meet the conditions of the Delegation Agreements
- to serve an enforcement order on an RSB or RQB that is failing to meet its statutory responsibilities;
- to impose a financial penalty on an RSB or RQB that fails to meet its statutory responsibilities

FRC structure



ICAEW's role

- Register and supervise (including QA inspections) auditors of non-PIEs in the UK. This involves:
 - Registration
 - Quality assurance
 - Investigations and Discipline
 - CPD requirements
- Offer a qualification for auditors that meets the criteria set out in the Companies Act, overseen by FRC.

Recent developments in audit regulation

- 3 recent reviews into the Audit market - 2 commissioned by the Government and one operated by the Capital Markets Auditory (CMA)
- The Brydon review into the Quality and Effectiveness of Audit recommended:
 - ARGA to create a new profession of corporate auditing (similar to a Chamber of Auditors). A new term 'corporate auditor' should be used to describe the profession.
 - ARGA to produce a clear English guide to what an audit is and isn't.
- The CMA review of the Statutory Audit Market recommended:
 - Mandatory joint audits and peer review.
 - Enhanced audit committee role.
- The Kingman review. It recommended that:
 - FRC be replaced by a more powerful and independent authority to be named ARGA - the Audit, Reporting and Governance Authority.
 - FRC separately register PIE auditors - they started this in September 2022.



icaew.com