



Financial Reporting Council

Supervision Committee

Terms of Reference

1st June 2023

Supervision Committee - Terms of Reference

Purpose

The Supervision Committee (the 'Committee') is responsible for overseeing the FRC's statutory supervisory and oversight functions and its non-statutory monitoring work, with the aim of serving the public interest by promoting high professional standards in accounting, audit, actuarial work and corporate reporting.

1. Introduction

- 1.1. The Committee is a Regulatory Committee of the FRC Board ('The Board').
- 1.2. In addition to these Terms of Reference, members of the Committee must adhere to the General Committee Terms, contained in the FRC Governance Handbook.

2. Frequency of Meetings

- 2.1 The Committee shall meet at least four times a year.

3. Responsibilities

The Committee has the following responsibilities:

Professional Oversight

- 3.1. Exercise its functions as the designated Competent Authority for Audit under The Statutory Audit and Third Country Auditor Regulations 2016 ('SATCAR 16') including the delegation, removal or retention of tasks to the Recognised Supervisory Bodies ('RSB') insofar as concerns monitoring and market supervisory activity.
- 3.2. Oversee the Executive's exercise of functions transferred to the FRC by the Secretary of State under Part 42 of the Companies Act 2006 ('Part 42 functions'), which includes:
 - a. The continued recognition of an RSB to supervise auditors
 - b. The continued recognition of qualifying bodies ('RQB') to offer a recognised audit qualification;
 - c. The imposition of a direction or penalty on an RSB or RQB;
 - d. Applications to the court for an Order to require a RSB or RQB to meet its statutory obligations
- 3.3. Oversee, and receive bi-annual reports on, the Executive's monitoring of:
 - a. The RSBs' performance of Regulatory Tasks delegated to them and the RSBs' compliance with the conditions of the agreed Delegation Agreements under SATCAR 16; and
 - b. Each RSB and RQB's compliance with the requirements of Schedules 10 and 11 of the Companies Act 2006.

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- 3.4. Recommend to the Board the annual report to the Secretary of State on how the FRC has discharged its Part 42 functions, in accordance with paragraph 10 of Schedule 13 of the Companies Act 2006 (known as the Professional Oversight Report).

Third Country auditors

- 3.5. Oversee the process and procedures for the registration or deregistration of third country auditors as set out in the Statutory Audit and Third Country Auditor Regulations 2013 ('SATCAR 13').
- 3.6. Approve any amendments to the Third Country Auditors Directions, Register Procedures and Fees.
- 3.7. Authorise the sending of Notices requiring Third Country Auditors to notify the FRC of specific matters or to provide requested information or verification of information (under s.1243 and s.1244 of the Companies Act 2006).
- 3.8. Authorise an application for Court Orders to secure a Third Country Auditor's compliance with obligations (under s.1245 of the Companies Act 2006).
- 3.9. Take decisions regarding the mandatory or discretionary removal of a Third Country Auditor from the TCA Register¹ (under s.1246 of the Companies Act 2006).

Independent Supervisor of the Comptroller and Auditor General

- 3.10. On behalf of the Board, oversee the FRC's discharge of its functions as the appointed Independent Supervisor of the Comptroller and Auditor General, which includes the following:
- a. Maintaining and exercising the agreed Supervision Arrangements
 - b. Monitoring the quality of statutory audit work and systems within the National Audit Office.
- 3.11. Recommend to the Board, the publication of an annual report to Parliament on the discharge of these functions (known as the Independent Supervisor's Report).

Corporate Reporting Review

- 3.12. Oversee the Executive's exercise of the functions delegated to the FRC by the Secretary of State under Part 15, Chapter 11 of the Companies Act 2006 and section 14(2) of the Companies (Audit, Investigations and Community Enterprise) Act 2004. This relates to the review of entities' corporate reporting and compliance with Companies Act 2006 requirements and, where applicable, Financial Conduct Authority rules.
- 3.13. Maintain published operating procedures for carrying out the FRC's delegated corporate reporting review functions.

¹ Reasons for deregistration may include but are not limited to: incorrect Application Statements, non-compliance with a relevant requirement or on consideration of information from another competent authority

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- 3.14. Where consulted, provide its views on the exercise of the FRC’s powers, under Part 15, Chapter 11 of the Companies Act 2006, both to require the provision of information and explanation from entities or individuals and to apply to court requiring an entity to prepare revised accounts or reports.

Crown Dependencies

- 3.15. Approve the annual report to the Crown Dependencies on the discharge of its audit supervision duties in accordance with Memorandum of Understanding between the FRC, ICAEW, the Committee for Economic Development in Guernsey, The Jersey Financial Services Commission and the Financial Supervision Commission of the Isle of Man (known as the Crown Dependencies Report).

Local Audit

- 3.16. Receive regular updates on the Executive’s exercise of the FRC’s regulatory functions under the Local Audit and Accountability Act 2014 and as shadow system leader for local audit, and its delivery of the responsibilities outlined in the Memorandum of Understanding with the Department for Levelling up, Housing and Communities (“DLUHC”) of 2 March 2023.
- 3.17. Approve the publication of audit quality inspection reports on major local audits.
- 3.18. Approve the FRC’s response to DLUHCs remit letters to the FRC as shadow system leader.
- 3.19. Approve the Annual Report on the Local Audit System and any other key additional publications issued by the FRC as shadow systems leader.

Auditor registrations and appointments

- 3.20. Approve any amendments to the Eligibility Criteria for appointment as statutory auditors.
- 3.21. Where contentious and referred to the Committee by the Executive Committee, take decisions regarding the registration, imposition of conditions or restrictions, deregistration of a firm or individual from the PIE Auditor Register.
- 3.22. Receive regular reports on the Executive’s exercise of its responsibilities relating to auditor independence requirements within the EU Audit Regulation and SATCAR 162
- 3.23. Approve any application to court made by the Executive for an order to remove an auditor from office under section 511A of the Companies Act 2006.

Other

- 3.24. Advise the Board on the provision of adequacy and equivalence reports to the Secretary of State

² Article 4(2) –grant exemptions to the cap on non-audit services fees. 17(6)– grant an extension (of up to two years) beyond the maximum tenure of a statutory audit. Article 17(7) – ensure the appropriate gradual rotation of key audit partners. Article 17(8) –determine the start date for an audit engagement period in cases of uncertainty.

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- 3.25. Approve Mutual Recognition Agreements, and any amendments thereof, between the FRC and competent authorities for audit in other countries.
 - 3.26. Approve declarations that a third country audit qualification is approved under s. 1221 of the Companies Act 2006.
 - 3.27. Recommend to the Board the FRC's annual overview public inspection and monitoring report for UK audit firms.
 - 3.28. Approve the publication of key publications relating to the FRC's supervisory and monitoring activities, including the Annual Review of Corporate Reporting.

General

- 3.29. Receive updates on the activities of the Supervision Division and the contribution of these activities to the objectives of the FRC.
- 3.30. Monitor the key risks in relation to the FRC's supervisory and monitoring work.
- 3.31. Approve the issue of consultation documents in relation to FRC's supervisory and monitoring activities.
- 3.32. Consider and respond to requests for advice from the Board, Regulatory Standards and Codes Committee or Conduct Committee.

Approved by the FRC Board with effect from 1 June 2023



Financial Reporting Council

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