

Audit Quality Review (AQR):

Scope of Independent Inspection 2015/16

(Note: This constitutes the list of “major audits” for the purposes of audit inspection and the requirement placed on audit firms under Regulation 3.15 of the Audit Regulations and Guidance 2013 to notify new “major audit” appointments to the relevant Audit Registration Committee. The FRC has issued separate statutory guidance on the meaning of the term “major audit” for the purposes of the statutory requirements placed on audit firms and companies, under sections 522 to 525 of the Companies Act 2006, to notify changes of auditors to the Appropriate Audit Authority: <http://frc.org.uk/Our-Work/Conduct/Professional-oversight/Oversight-of-Audit/Notification-of-change-of-auditor.aspx>)

Audits of the following entities are within AQR’s scope of inspection in 2015/16. AQR will review a sample of relevant audit engagements at each firm selected for an inspection visit. AQR will normally review the last completed audit of an entity. In 2015/16, the relevant financial year is likely to have ended in either 2014 or 2015.

- All UK incorporated companies with listed equity and / or listed debt. *(Note 1)*
- All non-EEA incorporated companies with listed equity and / or listed debt audited by a UK Registered Auditor. *(Note 2)*
- AIM or ISDX-quoted companies incorporated in the UK with a market capitalisation in excess of £100 million. *(Note 3)*
- UK unquoted companies, groups of companies, limited liability partnerships or cooperative and community benefit societies with Group turnover in excess of £500million. *(Notes 4 and 5)*
- UK incorporated banks not already included in any other category. *(Note 6)*
- UK Building Societies. *(Note 7)*
- Private sector pension schemes with either more than £1,000 million of assets or more than 20,000 members. *(Note 4)*
- Charities with incoming resources exceeding £100 million. *(Note 4)*
- Friendly Societies with total net assets in excess of £1,000 million. *(Note 4)*
- UK Open-Ended Investment Companies and UK Unit Trusts managed by a fund manager with more than £1,000 million of UK funds under management. *(Note 3)*
- Mutual Life Offices whose “With-Profits” fund exceeds £1,000 million. *(Note 4)*

Where AQR receives a request from an overseas audit regulator to review the audit of a UK entity or a UK subsidiary of an entity within that regulator’s scope, and agrees to do so, the audit of the UK entity will be deemed to be within AQR’s scope for this purpose. *(Note 8)*

In addition, the scope of AQR’s work at an individual audit firm may be extended by agreement with the audit firm or recognised supervisory body with which the firm is registered. *(Note 9)*

Notes

Note 1: This refers to any UK incorporated companies with equity and/or debt securities admitted to the official list (within the meaning of part 6 of the Financial Services and Markets Act 2000) or a regulated market elsewhere in the EEA, at either 31 December 2014 or, if later, the date of the last published set of financial statements,. Where the equity shares or debt and debt-like securities has been issued by a separate entity within a group structure, the group as a whole will be considered to be within AQR scope.

Note 2: This category includes any non-EEA incorporated companies (excluding those incorporated in Jersey, Guernsey and the Isle of Man to which different arrangements apply) with equity and / or debt securities admitted to the official list (within the meaning of part 6 of the Financial Services and Markets Act 2000) at either 31 December 2014 or, if later, the date of the last published set of financial statements. Where the equity shares or debt and debt-like securities has been issued by a separate entity within a group structure, the group as a whole will be considered to be within AQR scope.

Note3: These measures will be applied as at 31 December 2014.

Note 4: These measures will apply as at the date of the last published set of financial statements. Group turnover refers to the turnover of the group headed by the top UK entity.

Note 5: This category is intended to include UK companies or groups of companies, limited liability partnerships and industrial and provident societies that are privately owned, whether directly or through another investment vehicle, trust or holding company. It is also intended to include those companies owned by private equity funds or other institutions and major subsidiaries of overseas groups. If there are a number of separate UK subsidiaries and group consolidated financial statements are not produced, this measure will be applied on an individual company basis.

Note 6: This category includes all banks incorporated in the UK based on the definition of a bank in the Glossary to the PRA's Handbook. It excludes any banks which are incorporated either outside or within the EEA and authorised to accept deposits through a branch in the UK; or authorised in the EEA and entitled to establish branches in the UK but not to accept deposits in the UK.

Note 7: This category includes all building societies incorporated (or deemed to be incorporated) under the Building Societies Act 1986.

Note 8: This provision is to enable AQR to respond to requests from overseas regulators should it be considered appropriate to do so, thereby facilitating cost effective regulation and helping to address client confidentiality concerns expressed by audit firms. Such requests are likely to be rare and will be considered individually by AQR in consultation with the audit firm concerned. Where they occur, and result in a review of the relevant audit being carried out by AQR, then AQR will seek to agree the form of reporting with both the overseas regulator and the audit firm concerned.

Note 9: This provision is to enable AQR to agree a different scope with the relevant audit firm or recognised supervisory body if, in an exceptional case, both parties consider this to be appropriate.

For the avoidance of doubt, the above list refers to audits within the scope of inspections carried out by AQR to meet the requirements of UK company law. The audits of certain companies incorporated in Jersey, Guernsey and the Isle of Man whose shares are admitted to trading on a regulated market in the EEA are also subject to inspection by AQR under separate arrangements agreed with the relevant regulatory bodies.