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Scope and Authority of Audit and Assurance Pronouncements

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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THE FINANCIAL REPORTING COUNCIL – SCOPE AND AUTHORITY OF AUDIT AND ASSURANCE PRONOUNCEMENTS

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Introduction

1. The Financial Reporting Council (FRC) is committed to acting as a proportionate and principles-based regulator and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in audit and assurance.
2. This publication is issued to facilitate understanding of the scope and authority of the audit and assurance pronouncements the FRC issues.
3. Audit and assurance pronouncements issued by the FRC include:
 - Quality management standards;
 - Ethical standards;
 - Engagement standards for audits of financial statements and other public interest assurance engagements, including reviews of interim financial information by the auditor, reports in connection with investment circulars, engagements to provide assurance on client assets, and other assurance engagements specified by the FRC as "public interest assurance engagements"; and
 - Guidance for auditors of financial statements, reporting accountants and auditors involved in other assurance engagements.

The structure of the audit and assurance pronouncements is shown in the Appendix.

4. Practitioners should not claim compliance with the FRC's ethical, quality management, audit and assurance standards unless they have complied fully with all of those standards relevant to an engagement.
5. All relevant FRC pronouncements are likely to be taken into account when the adequacy of the work of practitioners is being considered in a court of law or in other contested situations.
6. The nature of the ethical and engagement standards and associated guidance requires professional accountants to exercise professional judgment in applying them. Where, in exceptional circumstances, practitioners judge it necessary to depart from a requirement, basic principle or essential procedure that is relevant in the circumstances of the engagement, the practitioner documents how the alternative procedures performed achieve the objective of the engagement and, unless otherwise clear, the reasons for the departure.

Quality Management Standards

7. The International Standards on Quality Management (ISQMs) (UK) apply to all firms performing audits or reviews of financial statements, or other assurance or related services engagements, including:
 - Audits of financial statements undertaken in compliance with International Standards on Auditing (UK); and
 - Other "public interest assurance engagements" undertaken in compliance with performance standards issued by the FRC, including:
 - Reporting accountants acting in connection with an investment circular (the Standards for Investment Reporting – 'SIRs');
 - Reviews of interim financial information by the independent auditor of the entity (International Standard on Review Engagements (UK) 2410);
 - Engagements to provide assurance on client assets to the Financial Conduct Authority (the CASS Standard); and

- Other assurance engagements specified by the FRC as "public interest assurance engagements" to be performed in accordance with International Standard on Assurance Engagements (UK) (ISAE (UK)) 3000.
8. The ISQMs (UK) include objectives for the firm, together with requirements¹ and related application and other explanatory material.
9. The ISQMs (UK) are based on the corresponding international standards issued by the International Auditing and Assurance Standards Board² (IAASB). Where necessary, the international standards have been augmented with additional requirements and application and other explanatory material that is appropriate in the UK national legislative, cultural and business context. This additional material is clearly differentiated from the original text of the international standards by the use of grey shading.

Ethical Standards

10. The FRC's Ethical Standard applies to:
- Audits of financial statements undertaken in compliance with International Standards on Auditing (UK)³; and
 - Other "public interest assurance engagements" undertaken in compliance with performance standards issued by the FRC, including:
 - Reporting accountants acting in connection with an investment circular (the Standards for Investment Reporting – 'SIRs');
 - Reviews of interim financial information by the independent auditor of the entity (International Standard on Review Engagements (UK) 2410);
 - Engagements to provide assurance on client assets to the Financial Conduct Authority (the CASS Standard); and
 - Other assurance engagements specified by the FRC as "public interest assurance engagements" performed in accordance with International Standard on Assurance Engagements (UK) (ISAE (UK)) 3000.
11. Part A of the Ethical Standard sets out the overarching principles of integrity, objectivity and independence, together with supporting ethical provisions. Together, these establish a framework, of ethical outcomes that are required to be met by the auditor or assurance practitioner, to provide a basis for user trust and confidence in the integrity and objectivity of the practitioner in performing the engagement.
12. Part B of the Ethical Standard sets out specific requirements⁴ relevant to certain circumstances that may arise in audit engagements and other public interest assurance engagements. These specific requirements are designed to assist in meeting the ethical outcomes required by the overarching principles and supporting ethical provisions. However, circumstances relating to engagements vary widely and meeting the ethical outcomes

¹ The level of authority of the text in requirements paragraphs is identified by use of the term "shall" (e.g., "the auditor shall ...").

² IAASB is an independent standard setting body. The IAASB's constitution and due process are described in its Terms of Reference.

³ The ISAs and ISQMs, as issued by the IAASB, require compliance with "relevant ethical requirements" which are described, in the application material, as ordinarily comprising the provisions of the International Ethics Standards Board for Accountants (IESBA) Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive. The ISAs (UK) and ISQMs (UK) have supplementary material that makes clear that in the UK firms and their personnel are subject to ethical requirements from two sources: the FRC's Ethical Standard, and the ethical pronouncements established by the auditor or assurance practitioner's relevant professional body.

⁴ The level of authority of the text in requirements paragraphs is identified by use of bold text and the term "shall" (e.g., "the [firm, engagement partner or other specified person] shall ...").

required by the overarching principles and supporting ethical provisions is paramount. Compliance with the specific requirements may not always be sufficient to achieve this as Part B does not, nor is it practicable for it to, address all possible circumstances that may exist. Practitioners need to be alert for, and respond appropriately to, other circumstances that create threats to meeting the ethical outcomes required by the overarching principles and supporting ethical provisions.

13. Firms and their personnel are also subject to the requirements of the ethical pronouncements established by the professional bodies of which they are members.
14. The FRC's Ethical Standard was developed with the intent that it should adhere to the principles of the IESBA Code.
15. The scope of the FRC's Ethical Standard is explained in more detail in the Introduction to the Ethical Standard.

Standards and Guidance for Audits of Financial Statements

16. The FRC has been designated as the Competent Authority for Audit in the UK⁵ and as such has the authority to determine the technical standards to be applied for statutory audits of companies in accordance with the Companies Act 2006. Apparent failures by an auditor to comply with applicable ethical or engagement standards are liable to be investigated by the FRC or the auditor's relevant accountancy body. Auditors who do not comply with the applicable ethical or engagement standards when performing company or other audits make themselves liable to regulatory action which may include the withdrawal of registration and hence of eligibility to perform company audits.
17. Ethical and engagement standards for audits of financial statements, which comprise the FRC's Ethical Standard (see paragraphs 10 to 15) and International Standards on Auditing (ISAs) (UK), apply to auditors carrying out:
 - Statutory audits of companies in accordance with the Companies Act;⁶
 - Audits of financial statements of entities in accordance with other UK legislation e.g. building societies, credit unions, friendly societies, pension funds, charities and registered social landlords;
 - Public sector financial statement audits in the UK, including those carried out either on behalf of the national audit agencies or under contract to those agencies. (The standards governing the conduct and reporting of the audit of financial statements are a matter for the national audit agencies to determine. However, the heads of the national audit agencies⁷ in the UK have chosen to adopt the ethical, engagement and quality standards issued by the FRC for audits as the basis of their approach to the audit of financial statements);
 - Other audits performed by audit firms registered with the UK members of the Consultative Committee of Accountancy Bodies (CCAB)⁸ unless the nature of the engagement requires the use of other recognised auditing standards and the rules of

⁵ By order of SI 2016/649 The Statutory Auditors and Third Country Auditors Regulations 2016.

⁶ Companies Act 2006.

⁷ National audit agencies in the UK are the National Audit Office (for the Comptroller and Auditor General), the Wales Audit Office (for the Auditor General for Wales), Audit Scotland (for the Auditor General for Scotland and the Accounts Commission) and the Northern Ireland Audit Office (for the Comptroller and Auditor General for Northern Ireland).

⁸ The UK members of CCAB are The Institute of Chartered Accountants in England & Wales, The Institute of Chartered Accountants of Scotland, The Association of Chartered Certified Accountants and The Chartered Institute of Public Finance and Accountancy.

the relevant CCAB member does not preclude the use of other recognised auditing standards; and

- Other audits where audit firms not registered with members of the CCAB elect, or are required by contract, to perform the work in accordance with UK auditing standards.

18. The ISAs (UK) are based on the corresponding international standards issued by the IAASB. Where necessary, the international standards have been augmented with additional requirements⁹ and application and other explanatory material that is appropriate in the UK national legislative, cultural and business context. This additional material is clearly differentiated from the original text of the international standards by the use of grey shading. ISAs (UK) are consistent with International Standards on Auditing as issued by the IAASB and the requirements of ISAs (UK) do not conflict with the requirements in ISAs. An audit conducted in accordance with ISAs (UK) does not therefore preclude the auditor from being able to assert compliance with International Standards on Auditing issued by the IAASB.
19. Further explanation of the scope, authority and structure of the engagement standards are set out in ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*.
20. For the audit of UK groups, the group auditor needs to be satisfied that the audit of the group financial statements, on which the group auditor gives an audit opinion, is in accordance with the ISAs (UK). Auditors of overseas components are not required to have regard to the additional requirements and application and other explanatory material in those standards, although the group auditor may decide to refer to it in their instructions to component auditors.¹⁰

Guidance for Auditors

21. Guidance for auditors of financial statements is also issued in the form of Practice Notes and Bulletins. Practice Notes and Bulletins are persuasive rather than prescriptive and are indicative of good practice. Practice Notes assist auditors in applying engagement standards to particular circumstances and industries and Bulletins provide timely guidance on new or emerging issues. Auditors should be aware of and consider Practice Notes applicable to the engagement. Auditors who do not consider and apply the guidance included in a relevant Practice Note should be prepared to explain how the engagement standards have been complied with.
22. In particular industries or sectors, guidance for auditors may also be issued as Statements of Recommended Practice (SORPs) which clarify how engagement standards may need to be applied in order to be relevant and provide useful information to users of auditor's reports or other information issued by the auditor in that industry or sector. SORPs are persuasive rather than prescriptive and are indicative of good practice. Auditors should be aware of and consider SORPs applicable to the engagement. Auditors who do not consider and apply the guidance included in a relevant SORP should be prepared to explain how the engagement standards have been complied with. SORPs are issued by bodies recognised for this purpose by the FRC and developed in accordance with the FRC's Policy on Developing Statements of Recommended Practice (SORPs) (January 2021).¹¹

⁹ The level of authority of the text in all requirements paragraphs is identified by use of the term "shall" (e.g., "the auditor shall ...").

¹⁰ If the auditor of an overseas component is a part of the same firm as the group auditor (i.e. the same legal entity) consideration needs to be given to whether the auditor of the overseas component has the same legal obligations as the group auditor and, therefore, is required to comply with the legal or regulatory requirements of the ISAs (UK). If such obligations exist, consideration needs to be given to the implications for communication between the group auditor and component auditor (for example where necessary to fulfil obligations for reporting money laundering offences or reporting matters to a regulator).

¹¹ <https://www.frc.org.uk/getattachment/b9d6b0a4-6c66-4618-bf54-04ce6949a899/Policy-on-Developing-SORPs-Jan-2021.pdf>

23. The FRC has issued Professional Judgment Guidance which presents a framework for making professional judgements, followed by a series of illustrative examples showing how professional judgement might be used in practice. The effective exercise of professional judgement is a critical feature of any audit, and a fundamental requirement of the auditing standards. This guidance is non-authoritative; it is intended to be persuasive rather than prescriptive, encapsulating good practice. However, auditors who chose not to use or consider this guidance will need to be prepared to explain how they have complied with the relevant engagement standards. Firms who already have a professional judgement framework are not required to adopt the FRC's instead. However, those firms are expected to analyse and understand the FRC's framework and identify and remedy any areas where their own frameworks could be enhanced. Although written for auditors, the guidance may be useful for others in the financial reporting chain, for practitioners undertaking other assurance engagements, or for specialists in other fields providing expert input into an audit or other assurance engagement, in making their own professional judgements.
24. The FRC has also prepared Staff Guidance Notes for the convenience of users of the FRC's Ethical Standard and ISAs (UK). These are intended to support practitioners when they make judgments on the application of standards. In addition to the Guidance Notes, a table providing a rolling record of issues raised with the FRC is also available which either sets out a response for each issued raised or sets out the work that is currently in hand to allow the FRC to respond in due course. These materials have been prepared following discussion of the issues at the FRC's Audit Technical Advisory Group, which comprises representatives from audit firms and professional bodies, investors and audit committee chairs.

Standards and Guidance for Review Engagements

25. The FRC issues standards and guidance for accountants on assurance engagements closely related to an audit of the financial statements. This includes the International Standard on Review Engagements (ISRE) (UK) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. ISRE (UK) 2410 adopts the text of ISRE 2410 issued by the IAASB, setting out the general principles and objective of an engagement to review interim financial information together with requirements¹² and related guidance material. As with ISAs (UK), the standard has been augmented with additional requirements and guidance that is appropriate in the UK national legislative, cultural and business context.
26. Firms performing engagements in accordance with ISRE (UK) 2410 are also required to apply the FRC's ethical and quality management standards.

Standards and Guidance for Auditors Acting in Connection With an Engagement to Report to the Financial Conduct Authority in respect of Client Assets

27. The Client Asset Assurance Standard (CASS) issued by the FRC applies to auditors when carrying out an engagement to report to the Financial Conduct Authority in respect of client assets.
28. This engagement standard includes objectives for the CASS auditor, together with requirements¹³ and related application and other explanatory material. It is necessary to have an understanding of the entire text of the standard, including its guidance, to understand its objectives and to apply its requirements properly.
29. Firms performing engagements in accordance with the CASS are also required to apply the FRC's ethical and quality management standards.

¹² The level of authority of the text in requirements paragraphs is identified by use of bold text and the term "shall" (e.g., "the auditor shall ...").

¹³ The level of authority of the text in requirements paragraphs is identified by use of bold text and the term "shall" (e.g., "the CASS auditor shall ...").

Standards and Guidance for Reporting Accountants Acting in Connection With an Investment Circular

30. The Standards for Investment Reporting (SIRs) issued by the FRC apply to reporting accountants when carrying out engagements involving investment circulars intended to be issued in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.
31. The SIRs contain requirements, basic principles and essential procedures (identified in bold type lettering¹⁴) together with related guidance. The requirements, basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of a standard to understand and apply the requirements, basic principles and essential procedures properly.
32. Firms performing engagements in accordance with the SIRs are also required to apply the FRC's ethical and quality management standards.

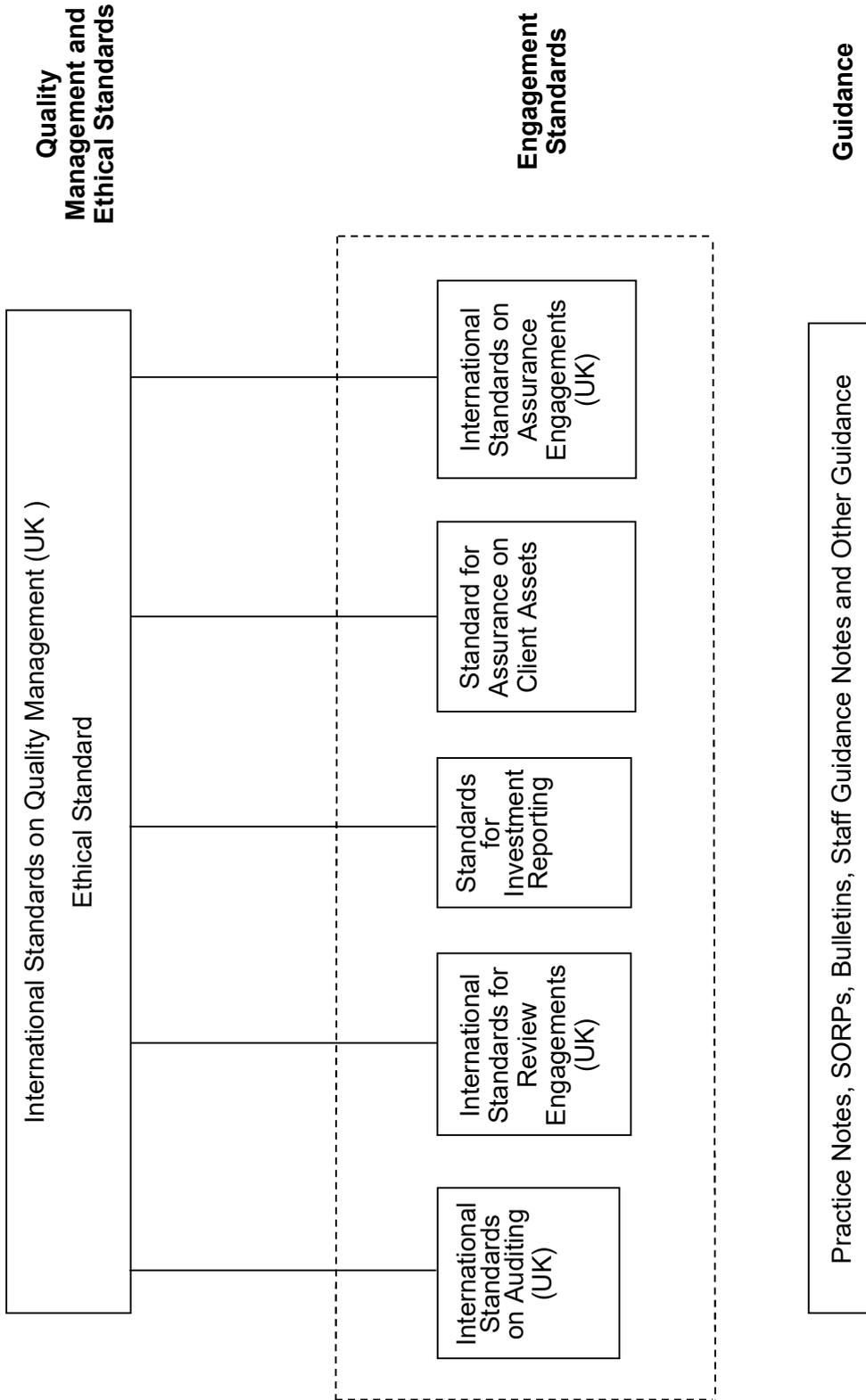
Standards and Guidance for Other Assurance Engagements Specified by the FRC as "Public Interest Assurance Engagements"

33. The FRC has issued International Standard on Assurance Engagements (ISAE) (UK) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. ISAE (UK) 3000 adopts the text of ISAE 3000 issued by the IAASB and contains requirements¹⁵ and application and other explanatory material specific to reasonable and limited assurance attestation engagements, other than audits or reviews of historical financial information. The standard has been augmented with additional requirements and application and other explanatory material that is appropriate in the UK national legislative, cultural and business context.
34. Firms performing assurance engagements specified by the FRC as "public interest assurance engagements" for which other specific standards have not been issued are required to perform them in accordance with ISAE (UK) 3000 and are also required to apply the FRC's ethical and quality management standards. Application of the standard to assurance engagements that are not specified as public interest assurance engagements is not mandated; it may, however, be applied voluntarily to other assurance engagements that meet the conditions set out in the standard.

¹⁴ The level of authority of the text in these paragraphs is also identified by use of the expression "the reporting accountant shall...".

¹⁵ The level of authority of the text in requirements paragraphs is identified by use of the term "shall" (e.g., "the practitioner shall ...").

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