

Registration as a third country auditor in the UK

Frequently Asked Questions (FAQ) – Form B

Registration

1. Why do third country auditors have to register with authorities in the UK?

United Kingdom (UK) law sets minimum regulatory requirements for statutory audits. The interrelation of capital markets underlines the need to ensure that auditors from third countries carry out high quality audit work in relation to companies with transferrable securities admitted to trading on the capital markets in the UK.

UK law requires the relevant statutory auditors and auditors from third countries to be entered on a public register and be subject to a level of regulation equivalent to the minimum required for UK auditors.

2. Which auditors come within the definition of a third country auditor?

UK law defines a third country auditor as “a person, other than a person eligible for appointment as a statutory auditor, who is eligible to conduct audits of the accounts of bodies corporate incorporated or formed under the law of a third country in accordance with the law of that country”.

Under the current legal framework in the UK no separate registration as a third country auditor is required where the audit firm is already a registered auditor in the UK, eligible for appointment as a statutory auditor in accordance with the requirements of section 1212 of the Companies Act 2006.

3. Who should use Form B?

Form B should be used by all auditors from any country not entitled to use Form A. An auditor whose home country is an “equivalent”, or “transitional” third country should use **Form A**.

The **equivalent** countries are: Abu Dhabi, Australia, Brazil, Canada, China, Dubai International Financial Centre, Guernsey, Indonesia, Isle of Man, Japan, Jersey, Malaysia, Mauritius, New Zealand, Singapore, South Africa, South Korea, Switzerland, Taiwan, Thailand, Turkey and USA.

The following countries are also equivalent countries in respect of audits of financial statements for periods starting on or after **1 January 2021**: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

There are currently no countries which have transitional status.

You should contact us at thirdcountryauditors@frc.org.uk if you are uncertain as to which form you should use.

4. What is a “relevant audit client”? (Question 9)

A “relevant audit client” is defined as any company incorporated or formed outside of the UK with transferable securities admitted to trading on a regulated market in the UK for which the applicant provides an audit report concerning the annual or consolidated accounts. This is with the exception of companies that are issuers exclusively of debt securities, the denomination of which is:

- a) If admitted to trading on or before 31 December 2010: at least EUR 50,000 per unit or, in the case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 50,000; or
- b) If admitted to trading after 31 December 2010: at least EUR 100,000 per unit or, in the case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 100,000.

5. Does registration entitle a third country auditor to provide statutory audit services in the UK?

No. Registration as a third country auditor only gives approval, for the purposes of UK requirements, in relation to the audit of a third country company with securities admitted to trading on a UK regulated market. It does not give approval to carry out statutory audits as required by UK Companies Act 2006. Nor does it recognise the qualifications of third country auditors.

6. What are the requirements for full registration as a third country auditor under UK Law?

The FRC deals with each application on its own merits. It can only register a third country auditor if:

- The third country auditor provides the required information for the public register, as required by the Statutory Auditors and Third Country Auditors Regulations 2013 (as amended) by completing the correct application form in full;
- A majority of the members of the administrative or management body of the third country auditor hold an audit qualification which meets requirements equivalent to those required by UK legislation;
- Individual third country auditors responsible for carrying out the audit on behalf of the third country auditor hold an audit qualification equivalent to that required for UK statutory auditors;
- The third country auditor undertakes to carry out the relevant audits in accordance with international auditing standards, or equivalent standards, and in accordance with the minimum independence, objectivity required for UK audit firms, or equivalent standards;
- The third country auditor publishes an annual transparency report which includes information as required under Article 13 of EU Regulation 537/2014 for UK audit firms or meets equivalent disclosure requirements (for accounting periods commencing on or after 17 June 2016);
- The third country auditor and the individual third country auditors are fit and proper persons to conduct audits of UK-traded non-UK companies; and
- The third country auditor agrees to participate in arrangements relating to inspections and other regulatory requirements.

7. What happens if an applicant does not meet the requirements for full registration under UK law?

Under UK law, audit reports issued by third country auditors that are not registered in the UK will have no legal effect. This means that the accounts would be considered as “not audited” for UK purposes.

Application procedure

8. When did the system of regulation of third country auditors begin?

Registration in the UK as a third country auditor applied from 4 November 2008.

9. Will the information submitted by the third country auditor be treated as confidential?

Yes, other than in respect of the information available on the Register of Third Country Audit Entities (**the Register**) that will be electronically accessible to the public (see FAQ 10).

The obligation of professional secrecy shall apply to all persons who are employed or who have been employed by the Financial Reporting Council. This applies, for example, as regards information as to the outcome of an external quality assurance review.

10. What information provided in the form will be available on the public register?

The information provided under Items 1.1 to 1.9, 2.1, 2.2, 3.2, 3.4, 6, 7.2, 10.1, 11.1 and 12.1 of Form B will be placed on the Register and shall be electronically accessible to the public.

This information includes (amongst other things):

- Name, address and contact information (including website address) of the firm;
- The address of each of the firm's offices from which it carries out audits of UK-traded third country companies;
- Name of primary contact;
- Legal form of the firm;
- Registration number and date of registration;
- Information about any network that the firm belongs to;
- The name and (office) address of each person who is a member of the firm's administrative or management body or who is a shareholder or owner of the firm;
- The name and (office) address of every individual who performs audits of UK-traded third country companies on behalf of the firm;
- The name and address of any other third country authority or body responsible for authorising the firm for audit in accordance with the law of a third country and the firm's registration number.

11. Will the information submitted by the third country auditor be subject to data protection rules?

Yes. There are data protection provisions according in UK law. However, as noted above, some information will be publicly available on the Register.

12. What language should be used for registration purposes?

Applications to the FRC must be in English.

Other information required by Form B

13. What is a network? (Question 3)

Under UK law, a 'network' means an association of persons other than a firm cooperating in audit work by way of:

- a) Profit sharing;
- b) Cost sharing;
- c) Common ownership, control or management;
- d) Common quality control policies and procedures;
- e) Common business strategy; or
- f) Use of a common brand name.

14. What is an affiliate of the applicant? (Question 3.3)

In this context an 'affiliate' means any undertaking, regardless of its legal form, which is connected to the third country auditor by means of common ownership, control or management.

15. What should be included in the description of the applicant's internal quality control system? (Question 4)

The requirements for audit firms in respect of systems for quality management are set by the International Standard on Quality Control (ISQC)1. ISQC1 has now been replaced by the International Standard on Quality Management 1 and 2 (ISQM1 and ISQM2).

An applicant's internal quality management system is required to comply with the new standards, ISQM 1 and ISQM 2, from 15 December 2022.

A system of quality management should provide reasonable assurance that the applicant and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements.

The description of the internal quality management system should cover at least the policies and/or procedures on the following components:

- The firm's risk assessment process;
- Governance and leadership;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Engagement performance;
- Resources;
- Information and communication; and
- The monitoring and remediation process.

The FRC would expect an Applicant's approach to quality management to be proportionate to the size and complexity of the Applicant firm.

16. What information should a transparency report contain? (Question 5)

For accounting periods commencing on or after 17 June 2016 the third country auditor must publish an annual transparency report which includes information as required under Article 13 of the Audit Regulation 537/2014 or meets equivalent disclosure requirements.

These requirements are

- A description of the legal structure and ownership of the auditor, if it is a firm;
- Where the statutory auditor or the audit firm is a member of a network:
 - a) A description of the network and the legal and structural arrangements in the network;
 - b) The name of each member of the network that is eligible for appointment as a statutory auditor, or is eligible for appointment as an auditor in an EEA State or in Gibraltar;
 - c) for each of the members of the network identified under paragraph (ii), the countries in which they are eligible for appointment as auditors or in which they have a registered office, central administration or a principal place of business;
 - d) The total turnover of the members of the network identified under paragraph (ii) resulting from statutory audit work or equivalent work in the EEA States or Gibraltar
- A description of the governance structure of the statutory auditor, if it is a firm;
- A description of the internal quality management system of the statutory auditor or of the audit firm and a statement by the management body on the effectiveness of its functioning;
- An indication of when the last quality assurance review was carried out;
- A list of public-interest entities for which the statutory auditor carried out statutory audits during the preceding financial year;
- A statement concerning the statutory auditor's independence practices which also confirms that an internal review of independence compliance has been conducted;
- A statement on the policy followed by the statutory auditor concerning the continuing education of statutory auditors referred to in paragraph 11 of Schedule 10 to the Companies Act 2006;
- Information concerning the basis for the remuneration of members of the management body of the statutory auditor, where that statutory auditor is a firm;
- A description of the statutory auditor's policy concerning the rotation of key audit partners and staff;
- Where not disclosed in its accounts, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:
 - a) Revenues from the statutory audit accounts of public-interest entities and member of groups of undertakings whose parent undertaking is a public-interest entity;
 - b) Revenues from the statutory audit of accounts of other entities;
 - c) Revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and
 - d) Revenues from non-audit services to other entities.

The statutory auditor or the audit firm may, in exceptional circumstances, decide not to disclose the information required in point (f) above to the extent necessary to mitigate an imminent and significant threat to the personal security of any person. The statutory auditor shall be able to demonstrate to the FRC the existence of such threat.

The transparency report shall be signed by the audit firm.

17. What is an external quality assurance review? (Question 8)

An external quality assurance review can be:

- A peer review under the supervision of a professional body or an independent public oversight body;
- A review carried out by a professional body;
- A review carried out by a professional body under the supervision of an independent public oversight body; or
- An inspection by an independent public oversight body in any jurisdiction.

The external quality assurance review should comprise both an assessment of the firm-wide procedures (including compliance with applicable auditing standards and independence requirements, of the quantity and quality of resources spent, of the audit fees charged and of the internal quality control system of the audit firm) and adequate testing of selected audit files.

18. What auditing standards are acceptable under UK Law (Question 9.1)

Options available

The UK accepts without reservation the use of:

- International Standards on Auditing (UK) ('ISAs (UK)'), or
- International Standards on Auditing ('ISAs') as issued by the International Auditing and Assurance Standards Board ('IAASB').

Alternatively, we may accept, after assessment:

- National auditing standards.

Reporting under national auditing standards

Where a third country auditor proposes to apply national auditing standards, we will consider on a case-by-case basis, at the point of registration or renewal of registration, the acceptability of those standards.

For a third country auditor's proposed auditing standards to be acceptable:

- They must be considered by the FRC to be equivalent to ISAs as issued by the IAASB (and therefore ISAs (UK)); and,
- The FRC will need to be confident that they will remain equivalent for the year for which registration is granted or renewed.

For those third countries that declare that their applicable auditing standards are based on ISAs as issued by the IAASB:

- It should be possible for equivalence to be assessed by a comparison of ISAs with the translated text of the auditing standards applied; and,
- We will also consider how continuing convergence with ISAs is ensured through a review of the third country's framework for the adoption of new auditing standards.

The decision taken by the UK in its own adoption of ISAs for use as part of ISAs (UK) has no bearing on how we assess the equivalence of any proposed auditing standards to ISAs (as issued by IAASB). Furthermore, acceptance of the national auditing standards in another third country will not influence how we assess those standards.

Auditor's report for audits in accordance with both national auditing standards and ISAs

A third country auditor may be required to conduct an audit in accordance with the auditing standards of their client's country of incorporation (the "national auditing standards") due to national laws and regulations, in addition to having complied with the ISAs or ISAs (UK) in the conduct of an audit in accordance with UK requirements.

In such circumstances, the auditor's report may refer to ISAs (or ISAs (UK)) in addition to the national auditing standards (it may 'dual report'). If the auditor's report does this, it should identify the national auditing standards and the country of origin of those standards.

For example, *'We conducted our audit in accordance with International Standards on Auditing and [Generally Accepted Auditing Standards] issued in [Country]'*

See also International Standard on Auditing 700 (Revised) Forming an Opinion and Reporting on Financial Statements for further guidance.

The FRC conducts its own audit inspections of third country auditors in countries that are required to follow the full registration requirements. If third country auditors propose to use their national auditing standards and dual report, they will be required to demonstrate that their audits are fully compliant with ISAs or ISAs (UK).

Contact for further information

If in doubt about which standards may be acceptable, please contact the FRC for confirmation at: thirdcountryauditors@frc.org.uk

19. What independence requirements are acceptable? (Question 9.1)

We accept without reservation independence requirements either in accordance with the IFAC Code of Ethics or with ethical standards set by the FRC in the UK.

Where neither of these is used, we will consider on a case-by-case basis the acceptability of standards otherwise applied by the third country auditor.

20. Who are the third country auditors referred to in Question 10?

Third country auditors are those **individuals** designated by the applicant for a particular audit engagement listed under item 9.0 as being primarily responsible for carrying out (or signing) the audit on behalf of the applicant *or* in the case of a group audit, at least the auditor(s) designated by the applicant as being primarily responsible for carrying out (or signing) the audit at the level of the group.

21. What information is needed in respect of the “fit and proper” requirement? (Question 13)

UK law requires a third country auditor to be a fit and proper person to conduct audits of UK-traded, non-UK companies.

You are required to assess whether or not the firm and relevant individuals are of good repute, using the guidance note (TCA GN1) and make a declaration to that effect, giving further explanation as appropriate.

We will also require you to obtain independent confirmation of this from an appropriate authority in your home country.

22. What form of regulation will apply to a firm under the full registration requirements?

Quality Assurance Reviews

UK law requires that third country auditors registered with the FRC under the full registration requirements are subjected to the UK system of external quality assurance.

To minimise regulatory burdens and costs, we tailor the nature and extent of our monitoring to our assessment of risk; and rely on the most appropriate form of external monitoring to address that risk in a proportionate manner, including for example direct monitoring by the FRC or a third country audit regulator from a country that is equivalent.

The cost of the monitoring visit will be charged to the third country auditor.

If you require more information on our approach to inspections, please contact us on thirdcountryauditors@frc.org.uk

Continuing Oversight

We will consider the firm’s continued registration in light of each periodic external monitoring report. We will also require a third country auditor to renew its registration annually to ensure that we have up to date information relevant to the firm’s continued registration.

This process may lead to the imposition of additional conditions of registration, such as the prohibition of a particular individual auditor from signing an audit report for UK purposes.

Investigation and Penalties

UK Law requires that third country auditors registered with the FRC are subject to the UK system of investigation and penalties for third country auditors.

23. In what circumstances will you de-register a third country auditor?

The law in the UK allows the FRC to remove a third country auditor from the Register if it considers that the third country auditor:

- a) Has failed to provide updated information;
- b) Has failed to comply with arrangements for independent external monitoring;
- c) Has failed to comply with arrangements for independent investigations;
- d) Has failed to notify the FRC of specified events;
- e) Has failed to provide the FRC with information that may be reasonably required for the exercise of regulatory functions;
- f) Has made an application statement that is no longer correct;
- g) Has failed to apply the auditing standards and independence requirements; or
- h) Is not a fit and proper person to conduct the audits of the accounts of a UK-traded non-UK company; or if
- i) A competent authority which oversees or regulates the TCA considers that the TCA is not a fit and proper person to conduct audits in the country in which that competent authority is established; or
- j) A competent authority which oversees or regulates the TCA considers that the TCA is not eligible to conduct audits of the accounts of bodies corporate incorporated or formed under the law of that country.

Updating of registration information

24. What does the third country auditor need to do to update registration information?

You must notify the FRC without undue delay to any changes in the following information.

- (a) Any change in the information on the Register so that the Register may be updated. The information included in the public register can be found in FAQ 10.
- (b) Names of relevant audit clients lost.
- (c) Details of new relevant audit clients.
- (d) Notification of any sanctions related to audit responsibilities (firmwide and / or individuals) levied by any audit competent authority with which the firm is registered. This is subject to your local laws, and we expect you to notify the FRC of those that have been made public.

Please notify us of these changes by emailing us at thirdcountryauditors@frc.org.uk

The FRC should be notified within fifteen business days of the change taking effect or publication of the sanction.

If you have further queries, please contact us by e-mail at thirdcountryauditors@frc.org.uk.