



Department for
Business, Energy
& Industrial Strategy

**Direction on delegation of audit
regulatory tasks**

A direction on behalf of the
Secretary of State to the
Financial Reporting Council
(FRC) under the Statutory
Auditors and Third Country
Auditors Regulations 2016

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Delegation and reclaim of audit regulatory tasks under regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016 to Supervisory Bodies Recognised by the Financial Reporting Council under section 1217 of the Companies Act 2006

Direction by the Parliamentary Under Secretary of State on behalf of the Secretary of State for Business Innovation and Skills under regulation 3(12) of the Statutory Auditors and Third Country Auditors Regulations 2016

Legal Framework:

Regulation 3 of the Statutory Auditors and Third Country Auditors Regulations 2016 (“the 2016 Regulations”) gives effect to the requirements of Article 32(4) to (4b) of the Audit Directive (2006/43/EC), as amended by the new Audit Directive (2015/56/EU) (“the amended EU Directive”). These provisions also apply for the purposes of Regulation 537/2014 on specific requirements regarding statutory audits of public interest entities (“the EU Regulation”) by virtue of Article 20(1) of that Regulation.

Under regulation 3(1) of the 2016 Regulations the Financial Reporting Council (FRC) is the competent authority responsible for the public oversight of statutory auditors, for the regulatory tasks provided for in the EU Regulation and for:

- the approval and registration of statutory auditors;
- technical standards and standards of professional ethics and internal quality control of statutory auditors and audit work;
- continuing education of statutory auditors;
- monitoring (by means of inspections) of statutory auditors and audit work;
- investigation of statutory auditors and audit work; and
- imposing and enforcing sanctions.

Regulation 3 enables the FRC to delegate tasks to any Recognised Supervisory Body (RSB)¹ in accordance with the following framework as follows:

Under regulation 3(2) the FRC must consider whether and how tasks arising from its responsibilities listed above may be delegated to any RSB.

Tasks may be delegated by reference to particular descriptions of activity for which the FRC is responsible, particular descriptions of statutory auditor or particular descriptions of

¹ Recognised Supervisory Bodies are those bodies recognised by the FRC as having appropriate arrangements and resources in place for the supervision of statutory auditors under Section 1217 of the Companies Act 2006 and Part 1 of the Schedule 10 to that Act.

audited person (e.g. whether in relation to an individual engagement of an auditor by an audited entity, or in relation to a category of engagements defined by reference to an individual auditor or a category of auditors or audited entities).

However under regulation 3(5), as is required by Article 24(1) of the Regulation, the FRC may not delegate certain tasks arising from its responsibilities for inspection, investigation, enforcement and sanctions.

Under regulation 3(6) and (7) the FRC must specify the tasks delegated and any conditions under which those tasks are to be carried out and may specify exceptions to any delegation.

Under regulation 3(8) the FRC may reclaim tasks it has delegated, including those which relate to particular descriptions of regulatory activity, of statutory auditor or audited person.

Under regulation 3(12) the Secretary of State may give Directions to the FRC in connection with the delegation of tasks to the RSBs. This Direction is given under regulation 3(12) and is intended to give effect to the Government's statement of 20 July 2015 on the intended effect of the UK's proposed implementation of the Audit Directive and the Regulation. In the statement, the Parliamentary Under-Secretary of State, Baroness Neville Rolfe, stated that:

The Government intend that the Financial Reporting Council (the FRC) should be the UK competent authority for the regulation of auditors, but that legislation will require it to delegate regulatory tasks so far as is possible to recognised supervisory bodies that meet criteria set out in the legislation. Overall this would mean that the FRC would only have to conduct audit inspections, investigations and disciplinary cases in relation to public interest entities and would oversee the work of recognised supervisory bodies for other audits.

It would still be open to a recognised supervisory body to ask the FRC to agree to undertake work that would otherwise have been delegated to the recognised supervisory bodies. As now the FRC would also have the ability to take over any particular inspection or investigation if it deemed it to be in the public interest.

Following this statement and further consideration and formal consultation by the Department for Business Innovation and Skills, the 2016 Regulations were laid in draft for debate before both Houses of Parliament.

Following the approval of the 2016 Regulations by each House and the making of those Regulations on 15 June by the Parliamentary Under Secretary of State, the Secretary of State makes the following Direction:

Direction:

1. In considering whether and how tasks arising from the responsibilities listed in regulation 3(1)(e) to (m) of the 2016 Regulations may be delegated to any RSB, the FRC should work on the basis that, apart from in circumstances mentioned in paragraphs 2, 3, 4 and 5 below, these tasks are to be delegated to the RSBs.
2. The FRC may perform a task directly and not delegate it or, if it has delegated task, may reclaim it:
 - a) by agreement with an RSB;
 - b) where the FRC considers that the RSB is unable to carry out the task;
 - c) if the task arises from the FRC's responsibilities listed in regulation 3(1)(k) to (m) of the 2016 Regulations and relates to a particular audit engagement that is the subject of a joint inspection involving a third country competent authority; or
 - d) if the task arises from the FRC's responsibilities listed in regulation 3(1)(k) to (m) of the 2016 Regulations and relates to a one or more audit engagements where, given the circumstances relating to those engagements, the FRC considers there are public interest reasons for carrying out the task itself.
3. Where the FRC or RSB proposes that a task should be performed directly by the FRC or reclaimed by the FRC on the basis of paragraph 2(a) above, and there is no agreement on the proposal, the FRC or RSB may seek a further Direction from the Secretary of State.
4. Where the FRC or RSB proposes that a task should be performed directly by the FRC or reclaimed by the FRC on the basis of paragraph 2(d) above then, if the task relates to more than one audit engagement, the FRC must consult those whose interests would be affected by the proposal.
5. The Secretary of State may give a further Direction in connection with a task to which a proposal under paragraph 4 relates.
6. Tasks relating to the investigation of statutory auditors and audit work in relation to Public Interest Entities where they are permitted to be delegated by Article 24(1)(b) of the Audit Regulation (though tasks relating to imposing and enforcing sanctions in relation to those audits may not be delegated) are not included in the Direction under paragraphs 1 to 5 above and may be delegated, retained or reclaimed by the FRC.

Baroness Neville Rolfe DBE

17 June 2016

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