

Ms Sonya Gedson
Legal Services Board
7th Floor Victoria House
Southampton Row
London
WC1B 4AD

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Dear Sonya

Applications by the Institute of Chartered Accountants in England and Wales to become an approved regulator and licensing authority for probate activities under the Legal Services Act

Your letter of 11 February 2013 asks for advice in respect of the applications by the Institute of Chartered Accountants in England and Wales (ICAEW) to become both an approved regulator and licensing authority for probate activities under the Legal Services Act:

- Has the ICAEW been subject to a review or inspection by the FRC? If yes, were there any issues identified and have these been adequately addressed by the ICAEW?
- In your view as an oversight regulator of the ICAEW, do you think the ICAEW is a competent regulator for their existing regulatory activities which fall under the oversight of the FRC?

It may perhaps be helpful if I first explain the role that the Financial Reporting Council (FRC) has in the oversight of the professional accountancy bodies, including the ICAEW, before turning to your specific questions.

Background

The structure of audit regulation in the UK is essentially a mixed system, that is one in which both professional bodies and the FRC, as an independent regulator have key roles to play. Since 2004, the FRC has been responsible for the statutory oversight of the regulation of auditors by recognised professional bodies.

The FRC

Under *The Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc.) Order 2012*, which replaced a previous delegation order, the Government has delegated to the FRC most of the responsibilities and powers in Part 42 of the Companies Act 2006, of which the principal responsibility is to recognise and oversee the regulation of auditors by professional accountancy bodies. In particular, the FRC's statutory responsibilities for oversight of the regulation of statutory auditors are discharged by:

- recognising professional bodies to act as supervisory bodies ("recognised supervisory body" or "RSB") and/or as offering a recognised professional qualification for statutory auditors ("recognised qualifying body" or "RQB");

- assessing periodically that the RSBs continue to meet the requirements for recognition in the Companies Act 2006, including the requirements to have arrangements for independent standard setting, independent monitoring of audits of public interest entities and independent investigation and disciplinary arrangements for public interest cases¹;
- assessing periodically that the qualifications offered by RQB's continue to meet the requirements of the Companies Act 2006;
- carrying out specific reviews of aspects of audit regulation,

The accountancy profession

The professional accountancy bodies have the primary direct regulatory responsibility for the supervision of their members acting in their professional capacity. In relation to audit, as recognised qualifying bodies, they must have effective arrangements in place to ensure that their audit qualifications meet the statutory requirements; and, as recognised supervisory bodies, they must have in place amongst other things effective arrangements for registration, monitoring and disciplining of auditors.

Oversight of the professional bodies

Audit

FRC oversight has been exercised primarily by annually reviewing and testing how each of the Bodies² regulatory systems operate in practice, assessing whether they meet the statutory requirements for continued recognition, and making recommendations to the bodies, to help them improve what they do. As a part of this we visit each body for a period of between one to three weeks each year. We follow a risk-based approach to identify which regulatory elements to address in a particular year and the relative monitoring attention we should give to each of the bodies. Our assessment of risk is based on our knowledge and experience of the bodies, their response to recommendations made in earlier years and their willingness and ability to implement improvements effectively. The selection of areas to review during the annual visits takes into account only those elements which are important for the regulated duties.

In addition to the annual visits we also reserve the right to conduct more in-depth reviews if we have a specific concern. Such reviews enable us to look at an area in greater detail than would be possible during our annual oversight visits and can take around 6 months. To date we have conducted a few of these reviews covering audit monitoring by the RSBs, practical training for auditors and complaints and discipline.

Non-audit

Although our annual oversight work focuses on the statutory regulation requirements, since many of the systems in operation apply equally to all members of the bodies whether they are auditors or not, our oversight of audit regulation also serves to review the bodies' regulatory systems for their members more generally.

¹ It is a statutory requirement that certain key regulatory functions must be carried out independently of the recognised bodies:

- The monitoring of the auditors of major public interest entities is carried out by the FRC, through the Audit Quality Review team, and
- Disciplining of statutory auditors in relation to cases of major public interest is carried out through the Professional Discipline team.

² There are currently no reviews at CIPFA as its RQB status is currently in abeyance as they have had no relevant students since becoming recognised for qualification purposes.

We also, in agreement with the bodies, carry out some reviews of their regulation that is clearly outside of audit regulation. Most recently we reviewed their monitoring of members who practice non-regulated services. In general, the level of scrutiny for non-audit is significantly less than our statutory regulation of audit.

Oversight of the ICAEW

In answer to the specific questions you have asked, we have recently completed our eighth annual review of aspects of the ICAEW's regulation of auditors. We report privately to each body and also publish an annual report on audit regulation which may be found at [http://frc.org.uk/Our-Work/Publications/POB/Report-to-the-Secretary-of-State-for-Business_\(3\).aspx](http://frc.org.uk/Our-Work/Publications/POB/Report-to-the-Secretary-of-State-for-Business_(3).aspx). The private report for our visit to the ICAEW has not yet been finalised and therefore we cannot share this with you at this time. On the basis of that work, we can confirm that, in our opinion, the ICAEW takes its regulatory obligations very seriously, devotes considerable resources to this function and we have never found failings so serious as to call into question their continued recognition as an audit regulator. Inevitably perhaps, we continue to make specific recommendations as to how they might strengthen their processes and also find examples where they have failed to apply their processes as effectively as we would like. We are satisfied that the ICAEW takes our recommendations seriously.

Overall we are satisfied that the ICAEW is a competent regulator of statutory auditors and would note that much of the regulatory system that applies to auditors, for example handling of complaints and discipline, is also applicable to members more generally.

We are very happy to discuss this with you in more detail and to provide more detailed information about our oversight of the ICAEW.

Yours sincerely



Paul George
Executive Director Conduct
FRC Conduct Division
DDI: 020 7492 2340
Email: p.george@frc.org.uk