



Financial Reporting Council

Guidance Eligibility for Appointment as Statutory Auditor

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Guidance for Audit Firms on Eligibility Criteria in the Context of the Firm's System of Quality Management and the Performance of Engagements

Under UK legislation, the FRC – as competent authority – is responsible for the determination of criteria for the purpose of determining whether persons are eligible for appointment as statutory auditors.¹ As part of that responsibility, the FRC have determined eligibility criteria for key audit partners, engagement quality reviewers for public interest entities and those responsible for the firm's system of quality management.

This guidance sets out information for auditors to assist them in applying this eligibility criteria in the performance of audit engagements and in the context of the firm's system of quality management.

Key Audit Partners

Underlying legislation: *Companies Act 2006 Schedule 10 Part 2 Interpretation*

"'key audit partner' means—

- (a) an individual who is eligible for appointment as a statutory auditor and who is designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm;
- (b) in the case of a group audit, any of the following—
 - (i) an individual who is eligible for appointment as a statutory auditor and who is designated by an audit firm as being primarily responsible for carrying out the statutory audit of the consolidated accounts of the group on behalf of the audit firm;
 - (ii) an individual who is eligible to conduct the audit of the accounts of any material subsidiary undertaking and who is designated as being primarily responsible for that audit; or
- (c) an individual who is eligible for appointment as a statutory auditor and who signs the audit

For each audit engagement, the firm must designate at least one key audit partner.² The key audit partner is responsible for carrying out the audit on behalf of the firm and signs the auditor's report. Accordingly, the engagement partner is always a key audit partner.

¹ The Statutory Auditors and Third Country Auditors Regulations 2016 (2016 No. 649) Regulation 3(1)(f).

² ISQM (UK) 1, paragraph 34-1(j)(i).

Eligibility criteria related to key audit partners has two key aspects:

Aspect	Eligibility Criteria
1. The key audit partner must be assessed as being <i>eligible for appointment as a statutory auditor</i> ³	A key audit partner is eligible for appointment as statutory auditor when they are: ⁴ <ul style="list-style-type: none">(i) a member of a Recognised Supervisory Body (RSB); and(ii) eligible for appointment under the rules of that body.
2. The key audit partner is <i>primarily responsible for carrying out the statutory audit</i> (i.e., they are a "Responsible Individual" or "RI")	The key audit partner can only be an individual responsible for the firm's statutory audit work if they: ⁵ <ul style="list-style-type: none">(i) hold a practising certificate or equivalent;(ii) hold an appropriate qualification ("Audit Qualification") or equivalent;(iii) satisfy the Registration Committee of their RSB about their recent experience of statutory audit work;(iv) satisfy the Registration Committee that they meet the continuing professional development requirements of the registering RSB; and(v) are allowed to sign audit reports in their name on behalf of the firm.

Additional Requirements

In appointing a key audit partner, the firm must also consider the objectives in ISQM (UK) 1 for engagement partners to have appropriate competence and capabilities, including sufficient time, to consistently perform quality engagements⁶ and that the engagement partner is able to comply with the requirements in ISA (UK) 220.

Group Audit Engagements

In the case of a group audit engagement, the firm designates a key audit partner at the group engagement level and at the level of each material subsidiary where the group auditor intends to use the work of the component auditor for the purpose of the group audit.

The key audit partner designated at the group engagement level must meet the same eligibility criteria as set out above: that is, the key audit partner must be an RI.

³ ISQM (UK) 1, paragraph 34-1(c)(iv).

⁴ Section 1212 of the Companies Act 2006.

⁵ The FRC has issued Eligibility Criteria here: <https://www.frc.org.uk/getattachment/63a7c9d3-1ed7-4bbb-885c-c466d3d65773/FRC-Eligibility-Criteria-updated-effective-5-December-2022.pdf>.

⁶ ISQM (UK) 1, paragraph 32(d).

The key audit partner designated at the level of each material subsidiary must be an individual who is eligible to conduct the audit of the accounts of that material subsidiary and who is designated as being primarily responsible for that audit.

For any audits of UK subsidiary undertakings, the designated key audit partner must be an RI.

For any audits of overseas subsidiary undertakings, the group auditor will need to consider, in determining the key audit partner at that component, what "eligible to conduct the audit" means in the context of that group engagement. Such considerations should take into account factors such as:

- The requirement to apply as its main criteria the need to secure the quality of the audit and the firm's independence and competence in carrying out the audit and that the key audit partner is actively involved in carrying out the audit.⁷
- Whether the component auditor operates in a regulatory environment that actively oversees auditors.
- Whether the firm and the group auditor consider the eligibility criteria in the jurisdiction of the material subsidiary to be equivalent to that in the UK.

Public Interest Entities

For an audit of the financial statements of a public interest entity (PIE), the key audit partner must also meet and comply with the requirements of the FRC's Public Interest Entity (PIE) Auditor Registration Regulations.⁸ This includes, *inter alia*, being fit and proper⁹ and having sufficient experience and competence¹⁰ to undertake audits of financial statements of PIEs.

⁷ ISQM (UK) 1, paragraph 34-1(j)(ii) and (iii).

⁸ See: <https://www.frc.org.uk/auditors/audit-firm-supervision/public-interest-entity-auditor-registration>.

⁹ Registration requirement 5.1(d) of the FRC's Public Interest Entity (PIE) Auditor Registration Regulations.

¹⁰ Registration requirement 5.1(c) of the FRC's Public Interest Entity (PIE) Auditor Registration Regulations.

Engagement Quality Reviewers

Underlying legislation: *The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (2019 No. 177) Part 4 Regulation 83(a)*

"The review shall be performed by an engagement quality control reviewer (In this Article hereinafter referred to as: reviewer). The reviewer shall be a person who is eligible for appointment as a statutory auditor who is not involved in the performance of the statutory audit to which the review relates."

An audit of the financial statements of a PIE is required to have an engagement quality review¹¹ performed by an engagement quality reviewer (EQR) who is eligible for appointment as a statutory auditor and not involved in the performance of the statutory audit to which the review relates.¹²

The eligibility criteria determined by the FRC for an "individual who is eligible for appointment as a statutory auditor" to be appointed as an EQR for a PIE audit is different to that of a key audit partner, as the EQR is not responsible for the firm's statutory audit work.

Accordingly, the FRC have determined that an EQR must be a member of an RSB and hold an appropriate qualification ("Audit Qualification") or equivalent,¹³ but the EQR is not required to meet any additional FRC-determined criteria.

Additional Requirements

In appointing an EQR to a PIE audit, the firm must also consider the requirements in ISQM (UK) 2 for the EQR to have the competence, capabilities, including sufficient time, and the appropriate authority to perform the review.¹⁴ Such considerations may include whether the individual to be appointed as EQR has:

- An understanding of professional standards and applicable legal and regulatory requirements and of the firm's policies or procedures relevant to an audit engagement for a PIE.
- An understanding of, and recent experience relevant to, engagements of a similar nature and complexity.
- An understanding of the additional responsibilities of the EQR in performing and documenting the engagement quality review for an audit engagement for a PIE.
- Has the appropriate authority to, where necessary, challenge the significant judgments made by the engagement team.

¹¹ ISQM (UK) 1, paragraph 34(f)(iv).

¹² ISQM (UK) 2, paragraph 18-1.

¹³ This is equivalent criteria to the FRC's Eligibility Criteria, Part A, 5(d)(ii).

¹⁴ ISQM (UK) 2, paragraph 18(a).

Outsourcing of Engagement Quality Review

Underlying legislation: *The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (2019 No. 177) Part 4 Regulation 83(b)*

"(3) By way of derogation from paragraph 2, where—

- (a) the statutory auditor is a firm and all the individuals who were able to sign audit reports on behalf of the firm were involved in carrying out the statutory audit, or
- (b) the statutory auditor is an individual,
the statutory auditor must arrange for another person who is eligible for appointment as a statutory auditor to perform a review. The disclosure of documents or information to the independent reviewer for the purposes of this Article does not constitute a breach of the statutory auditor's duty of confidentiality. Documents or information disclosed to the reviewer for the purposes of this Article must be subject to that duty."

In some circumstances, it may be necessary to appoint an EQR external to the firm, where, for example, the firm is a sole practitioner or there are no other individuals in the firm who are eligible to perform the engagement quality review. This is likely to involve appointing individuals from external sources (i.e., the network, another network firm or a service provider).¹⁵

Under ISQM (UK) 1 and ISQM (UK) 2, the firm remains responsible for all aspects of the engagement quality review and has a responsibility to determine that:

- The resources (i.e., individual(s)) from the external source are appropriate for use;¹⁶ and
- The individual(s) assigned to the EQR role meet the eligibility criteria set out in ISQM (UK) 2.¹⁷

In making this determination, the firm considers such matters as:

- The considerations set out above in respect of appointing an EQR to a PIE audit.
- The related quality objective and quality risks. For example, there may be a quality risk that the EQR does not follow the firm's policies or procedures relevant to an audit engagement for a PIE.
- The firm's previous use of the individual and/or the network, another network firm or service provider.
- The individual and/or the network, another network firm or service provider's experience in the industry and reputation in the market.

¹⁵ ISQM (UK) 1, paragraph 32(c).

¹⁶ ISQM (UK) 1, paragraph 32(h).

¹⁷ ISQM (UK) 2, paragraphs 18 and 18-1.

Ultimate and Operational Responsibility for the System of Quality Management

Underlying legislation: *The Statutory Auditors and Third Country Auditors Regulations 2016 (2016 No. 649) Schedule 1 Paragraph 10(g)(ii)*

"Standards must ensure that A...establishes an internal quality control system to ensure the quality of a statutory audit, which...in the case of a firm, ensures that responsibility for the system lies with an individual who either holds an appropriate qualification or holds a corresponding qualification to audit accounts under the law of an EEA State, or part of an EEA State, other than the United Kingdom."

ISQM (UK) 1 requires the firm to assign ultimate responsibility and accountability for the system of quality management to the firm's chief executive officer (CEO) or managing partner or, if appropriate, the firm's managing board of partners.¹⁸

However, any firm that performs audits of financial statements must also ensure that at least one individual who is eligible for appointment as a statutory auditor is assigned:

- Ultimate responsibility and accountability for the system of quality management; and
- Operational responsibility for the system of quality management.¹⁹

In the context of the system of quality management, the eligibility criteria established by the underlying legislation is for such individuals to hold an appropriate qualification.²⁰

In the situation where an audit firm's CEO or managing partner is not eligible for appointment as a statutory auditor, ultimate responsibility and accountability for the system of quality management needs to be assigned to the firm's managing board of partners, of which at least one of those individuals would need to hold the Audit Qualification.

¹⁸ ISQM (UK) 1, paragraph 20.

¹⁹ ISQM (UK) 1, paragraph 21-1.

²⁰ The legislation also permits an individual holding a corresponding qualification to audit accounts under the law of an EEA State, or part of an EEA State, other than the United Kingdom.

Public Sector Considerations

Ultimate responsibility and accountability for the system of quality management is assigned to the Auditor General.²¹ Under the UK Companies Act, the Auditor General is eligible for appointment as a statutory auditor.²²

In the national audit agencies, the individual or individuals assigned to:

- the role of key audit partner;
- the role of engagement quality reviewer for an audit of financial statements of a public interest entity; or
- operational responsibility for the system of quality management,

may not be eligible for appointment as a statutory auditor under the Companies Act 2006, since the national audit agencies' audit appointments are vested personally in the Auditor General.

Where this is the case, the national audit agencies comply with the eligibility criteria set out in ISQM (UK) 1 and ISQM (UK) 2 by ensuring that the individual or individuals assigned have levels of experience, knowledge, influence and authority within the national audit agency such that they are capable of fulfilling the role of engagement partner or engagement quality reviewer,²³ as appropriate, which is considered to be equivalent to the levels required to achieve eligibility for appointment as a statutory auditor.

Local Audit Considerations

Audit firms engaged in local audit are required to comply with eligibility criteria set out in The Local Audit and Accountability Act 2014, and the statutory guidance issued by the FRC²⁴ in accordance with the underlying act.

In ISQM (UK) 1 and ISQM (UK) 2, "eligible for appointment as a statutory auditor" should be read as referring to the local audit equivalents where relevant.

²¹ "Auditor General" means (a) the Comptroller and Auditor General, (b) the Auditor General for Scotland, (c) the Auditor General for Wales, or (d) the Comptroller and Auditor General for Northern Ireland as set out in Section 1226(1) of the Companies Act 2006.

²² Section 1226(2) of the Companies Act 2006.

²³ Paragraph A11 of ISQM (UK) 2 includes public sector considerations in respect of the eligibility criteria for the EQR.

²⁴ See the FRC's [Guidance For Recognised Supervisory Bodies on the Approval of Key Audit Partners for Local Audit](#) (June 2022).

Summary of Eligibility Criteria Determined by FRC

	Must hold an Audit Qualification	Must be a Registered Responsible Individual	Must be a PIE Registered Responsible Individual
Engagement Partner and Key Audit Partner	Yes	Yes	No
Group Engagement Partner and Key Audit Partner	Yes	Yes	No
Key Audit Partner of a UK Material Subsidiary	Yes	Yes	No
Key Audit Partner of an Overseas Material Subsidiary	Eligible to conduct the audit of the accounts of that material subsidiary		No
Engagement Partner and Key Audit Partner for a UK PIE	Yes	No	Yes
Group Engagement Partner and Key Audit Partner for a UK PIE	Yes	Yes	Yes
Key Audit Partner of a UK Material Subsidiary that is also a UK PIE	Yes	No	Yes
Engagement Quality Reviewer for a UK PIE	Yes	No	No
Individual Assigned Ultimate Responsibility and Accountability for the System of Quality Management	Yes	No	No
Individual Assigned Operational Responsibility for the System of Quality Management	Yes	No	No



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