



Audit Regulation 3.13 – access to audit working papers

This note is to assist registered auditors with audit regulation 3.13 (see appendix 1).

Audit regulation 3.13 derives from the Companies Act 2006, schedule 10, paragraph 10A, which in turn derives from the EU's Statutory Audit Directive, article 27. The regulation only applies to registered auditors who audit a group that has a part of its operations (eg a subsidiary) based outside of the EEA and the audit work is undertaken by a firm from a non-EEA member state.

The basic requirement of the regulation is that the registered auditor either retains copies of the other firm's audit working papers or arranges that it can have unrestricted access to them on request. While a registered auditor may make such arrangements for its own purposes, the arrangements under the regulation are so that a review team (either the Institute's Quality Assurance Department (QAD) or the Audit Inspection Unit (AIU)) can review the audit working papers of the non-EEA auditor. It may also be the case that such papers are requested by the Accountancy and Actuarial Discipline Board.

On the assumption that a registered auditor does not routinely retain copies of non-EEA audit working papers, the firm should set up appropriate arrangements. The suggested text in the appendices 2 and 3 is to assist firms to start the process of complying with regulation 3.13. However, when a request is made to access audit working papers, full compliance with the regulation will require that the registered auditor seeks access to the working papers. If access cannot be obtained, then regardless of the reason why access could not be obtained, the auditor will have to record:

- the steps taken to obtain access;
- the reasons why they were not successful; and
- evidence of those steps and reasons.

Appendix 2 is text for a note to the non-EEA auditor and appendix 3 is text for inclusion in the engagement letter to the UK client. The registered auditor should treat a non-EEA firm which is part of the registered auditor's network no differently to a firm that is not a network member. For example, a firm may choose to adapt the text in appendix 2 where it deals with a number of non-EEA subsidiaries via a single overseas firm. The material could be included in the group audit instructions to the relevant firms on a client by client basis, or could be in a single, one-off notification to each firm that you deal with. However, in either case confirmation should be obtained from the overseas firm that it understands the requirements of providing access.

It would also be appropriate for a firm for a firm to follow the Audit and Assurance Faculty's guidance on this topic (see page 30 of *Auditing in a group context: practical considerations for auditors* - www.icaew.com/aaf) or any alternative procedure agreed with the Audit Inspection Unit.

The review teams will endeavour to give reasonable notice of requiring access to non-EEA audit working papers.

There is no need to make the arrangements set out above if the other auditor is based in the EEA. Nor are such arrangements needed if the Professional Oversight Board has entered into arrangements regarding the access to audit working papers with a non-EEA competent authority under s1253E of the Companies Act 2006. At the time of drafting this note (March 2009), no such arrangements had been made. Details of any future arrangements will be posted on the Professional Oversight Board's website at www.frc.org.uk/pob.

Extract from the audit regulations

3.13 In the case of a group audit where part of the group is audited by a *firm* from a non-EEA member state, a *Registered Auditor* must make arrangements so that, if requested by a *monitoring unit* or an *oversight body*, it can obtain from that *firm* all the audit working papers necessary for a review of that *firm's audit work*.

The arrangements referred to above are that the registered auditor either retains copies of the other firm's audit working papers or arranges that it can have unrestricted access to them on request. If, after taking all reasonable steps, a registered auditor cannot make such arrangements, it should document the steps taken to put such arrangements in place and the reasons why it could not and any evidence of those steps or reasons. A registered auditor need not make such arrangements if the relevant audit supervisory authorities in the non-EEA member state have established reciprocal arrangements with the oversight body. To find out if there is such an agreement in place, a list is published by the oversight body.

This regulation only applies in respect of the audits of financial years starting on or after 6 April 2008.

Suggested text for inclusion in communications concerning access to audit working papers with auditors of non-EEA overseas components of UK parent companies.

This note is to make you aware of certain requirements about access to audit working papers by regulators in the United Kingdom. These requirements result from the European Statutory Audit Directive on the statutory audit of annual and consolidated accounts (the Directive), as implemented in UK by the Companies Act 2006 and the Audit Regulations of our registering body, the Institute of Chartered Accountants in England and Wales (ICAEW). These requirements are also being implemented in the laws and regulations of other European Union countries.

The statutory audit work of UK companies is subject to review by the ICAEW's Quality Assurance Department (QAD) or the Audit Inspection Unit (AIU) of the Professional Oversight Board ("POB"). The latter body is responsible for the oversight of the audit profession in the UK.

If a UK group audit is subject to review, review staff may request that the audit working papers relating to a component of the group audited by a firm based outside the EEA country be made available to them. The Audit Regulations make the group auditor responsible for complying with such a request. If legal or other impediments prevent the review staff having access to the audit working papers, then we must be able to provide evidence to demonstrate that reasonable steps have been undertaken to gain access and evidence supporting the impediment.

We recognise that client confidentiality obligations, as well as other legal and regulatory provisions, may be an impediment to access to the audit working papers. In order to facilitate the granting of permission for local auditors to release audit working papers, our audit engagement letter with the UK parent company requests that it uses reasonable endeavours to obtain the consent of its overseas components for access to the audit working papers should we so request.

It is anticipated that requests for access to overseas audit working papers will be made infrequently. While the review staff have the right to require the complete audit working papers to be made available, they have indicated that they will, if appropriate, limit requests to the specific areas of the audit in which they are interested wherever possible, and endeavour to give reasonable notice of the request. The Institute and the AIU have a legal obligation to treat any audit working papers and their contents as private and confidential. They would not disclose the working papers or any information contained therein to any other party, except as specified in UK legislation.

To satisfy the Institute or the AIU that we have taken appropriate action to obtain access to overseas working papers for the review staff, we will be required to identify whether a refusal to allow access is based on client confidentiality obligations, legal or regulatory provisions or another matter. At the point we are made aware that audit working papers will be required by an inspecting team, we will contact you. If there are any impediments to access to the papers, you must identify these and provide us with evidence of the impediments.

Please confirm that you understand the above requirements.

Suggested text for inclusion in audit engagement letter to client

Our working papers and other internal documentation created for the purpose of carrying out our duties as auditors belong solely to us and will not be provided to you. However, we may be required to give access to our audit working papers for regulatory purposes or because of other statutory or legal obligations.

We are registered for audit work by the Institute of Chartered Accountants in England and Wales, a Recognised Supervisory Body under the Companies Act 2006. In common with all other UK auditors, the Institute or the Audit Inspection Unit of the Professional Oversight Board may request access to audit working papers in relation to other parts of your group prepared by overseas audit firms (including our associated firms). You agree to take all reasonable steps to procure that your overseas components grant consent, wherever necessary, to enable an overseas auditor to comply with such requests.