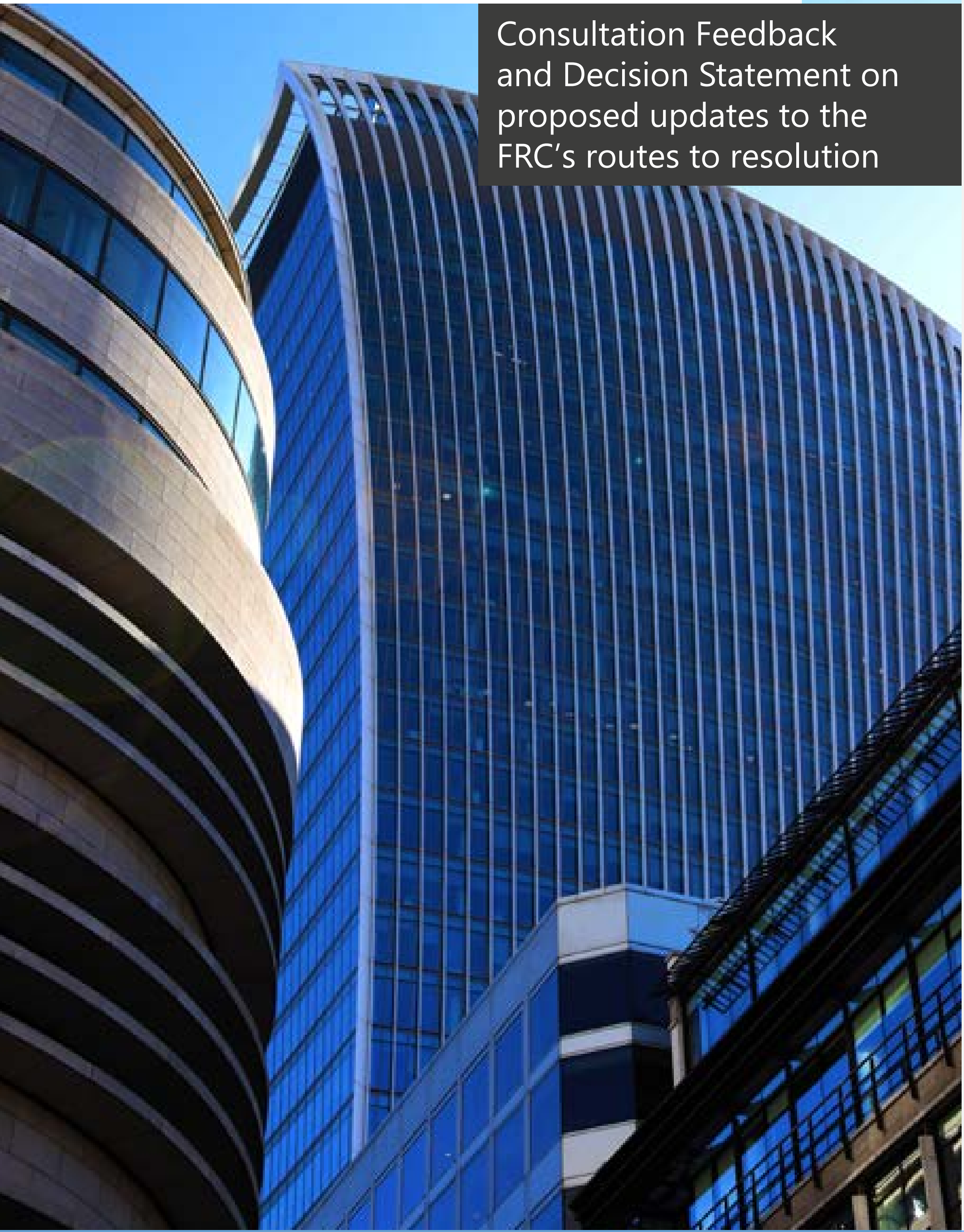
Audit Enforcement Procedure

Consultation Feedback and Decision Statement on proposed updates to the FRC's routes to resolution



Financial Reporting Council

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1. Introduction

The Financial Reporting Council (FRC) serves the public interest and supports UK economic growth by upholding high standards of corporate governance, corporate reporting, audit and actuarial work. This underpins trust and confidence in companies from a range of stakeholders such as investors, creditors to employees, which in turn enables access to capital and other support to help facilitate investment and growth.

An important contributor to this public trust and confidence is the integrity, quality and independence of statutory audits. Among its various roles that encourage good quality audits, such as setting standards and supervising audit firms and professional bodies, the FRC also has an important role in dealing effectively with cases where there are serious or significant shortcomings in statutory audit work.

Through its Audit Enforcement Procedure (**AEP**), the FRC exercises aspects of its role as the competent authority for statutory audit in the UK with a range of responses to potential breaches of relevant audit requirements.

This serves three principal purposes: to hold those involved to account and act as a deterrent for others; to underpin trust and confidence in UK statutory audit; and to help the sector learn lessons and improve.

By way of context, the number of AEP cases opened is relatively small. Since April 2023, the FRC has opened 17 AEP investigations and 31 constructive engagement matters.

The FRC recognises that any decision to open an AEP investigation requires very careful consideration, given the different and weighty factors involved, including the need to maintain public confidence and the potential impacts on the individuals and audit firms involved.

Following an internal review of the AEP, the FRC on 1 October 2025 launched a consultation (**AEP Consultation**) on proposed changes that could further enhance the objectives of proportionality, timeliness and effectiveness.

The AEP Consultation proposed a number of changes that included:

- Being more explicit as to how the public interest is embedded in the decision-making process and how the FRC's Conduct Committee[1] currently considers cases, and introducing senior executive involvement in the case assessment process to give the Conduct Committee additional assurance.
- Allowing the FRC, through its Conduct Committee, to have a more graduated and broader range of interventions available to resolve cases according to their individual facts and circumstances (referred to in this document as 'routes to resolution').
- Enabling the faster completion of cases and delivery of outcomes in appropriate circumstances.

The FRC invited comments on its proposals by 9 January 2026. This was supported by a structured programme of external engagements such as stakeholder roundtable events and bilateral meetings.

1 Under the AEP, these case decisions are assigned to FRC Board, but in practice the Board generally delegates them to its Conduct Committee, which includes subset of its non-executive members

The FRC received 28 written consultation responses. This Feedback and Decision Statement has had regard to those responses in addition to the comments received from the various stakeholder engagements during the consultation period.

The remainder of this document summarises the feedback we received and the FRC's decisions. The next section sets out a summary. **Appendix A** lists those who responded to the consultation. **Appendix B** sets out in detail the comments received and the FRC response. **Appendix C** sets out the revised AEP reflecting the changes identified in Appendix B.

The FRC would like to thank all those who contributed to the consultation.

2. Summary

The following summary has been prepared to support stakeholders in understanding the feedback which was received on the five main areas of policy change, and the FRC's response. A full breakdown of the feedback received, and the FRC's detailed responses, is provided in Appendix B.

Case assessment process

Consultation proposals

The AEP Consultation proposed that the FRC would remove the concept of an individual Case Examiner and instead provide for this function to be overseen by a (more senior) 'Designated Officer', anticipated in most cases to be the FRC's Executive Director of Supervision. The Designated Officer would have responsibility for (among other things) determining whether a question of a breach of a relevant requirement was raised, and making submissions and any recommendation to the Conduct Committee.

Feedback from stakeholders

Stakeholders were largely supportive of introducing a Designated Officer with responsibility for oversight of the case assessment process, while encouraging the FRC to ensure that the Designated Officer has sufficient resource to ensure that the creation of this role would not lead to bottlenecks in the FRC's case assessment process.

FRC response

The FRC welcomes the support expressed by stakeholders for the introduction of the Designated Officer. In undertaking this role, the Designated Officer will be able to access resource, knowledge and other support from across the organisation, as they consider necessary or appropriate, to carry out the role.

The Designated Officer will: (i) have oversight of the team that undertakes case assessment enquiries, and receive support in the preparation of the material to be submitted to the Conduct Committee; and (ii) be responsible for the determinations required by Rule 4 and Rule 5 of the AEP, including the recommended route of resolution. Where necessary (for example, in the absence of the Designated Officer), decisions under Rule 4 and Rule 5 will be delegated to another Executive Director of the FRC (but not to Executive Counsel, who conducts the case if the Conduct Committee opens an investigation or directs the use of the new Accelerated Procedure (AP)).

Re-worded test for action under the AEP

Consultation proposals

The AEP Consultation proposed re-wording the test applied under the AEP when determining the appropriate route to resolution, to include both an evidential test as to whether there are reasonable grounds to suspect a breach of a relevant requirement, and also explicit consideration of the public interest.

Feedback from stakeholders

Most stakeholders welcomed the reworded test to be applied by the Conduct Committee, and its more explicit reference to the public interest. It was recognised that guidance to the Conduct Committee in relation to public interest factors and the application of the test would be important, and that these should be published ahead of the revised AEP's effective date, as a result.

FRC response

The FRC welcomes the support from stakeholders for the reworded test, which includes an explicit articulation of the public interest. The FRC considers that the updated wording clarifies how the Conduct Committee presently considers cases referred to it.

As outlined in the AEP Consultation, the FRC is publishing a suite of policy and guidance documentation that supports the operation of the revised AEP, which will include further information on the public interest factors that the Conduct Committee will consider.

Published Constructive Engagement (PCE)

Consultation proposals

The AEP Consultation proposed introducing a new route to resolution where the FRC's Supervision Division would work with an audit firm in agreeing and overseeing the implementation of actions to address any issue(s) raised, with certain information relating to PCE being published. This route would require the consent of the statutory audit firm (and, where relevant, the statutory auditor) involved.

Feedback from stakeholders

Stakeholders generally welcomed the proposed introduction of PCE as a new route to resolution, with responses noting its proportionality in design by supporting improvement and learning while recognising the impact that the FRC's regulatory responses can have on individual auditors.

A mixture of feedback was received on the proposals to make an announcement at the commencement of a PCE matter. Some responses emphasised the importance of the transparent provision of information on cases to those who use audited accounts or audit services, while others suggested that an announcement at the outset would be unnecessary and disproportionate given that the route to resolution does not include a finding of a breach of a relevant requirement – and the associated sanction(s) – at its conclusion.

Some stakeholders raised questions over the FRC's provision for cost recovery from audit firms on cases going through PCE. It was suggested additional clarity be provided on circumstances in which costs will not be imposed, and that the FRC should have a presumption against recovering costs in circumstances where no action is taken at the conclusion of the PCE.

FRC response

The FRC welcomes the broad support received from stakeholders regarding the proposed introduction of PCE, and agrees with the sentiment that Constructive Engagement (CE) should continue to be available for lower-level issues and that PCE should not displace the application of CE.

In response to the feedback received the FRC will introduce a presumption against making a standalone announcement (e.g. press notice) regarding the commencement of a case in respect of which PCE is being conducted, while retaining discretion for the Conduct Committee to issue such a publication if it deems this is appropriate. The FRC will, however, record the commencement of all PCE cases on its website in line with the proposals in the AEP Consultation. It is also intended that a standalone announcement will be made of the outcome of a PCE case, unless the Conduct Committee considers it not to be in the public interest.

The FRC notes the comments received in relation to costs recovery in respect of PCE. In response, we are providing guidance on the determination of whether costs should be payable, including an appropriate cap. The guidance also clarifies that the Designated Officer may waive the requirement for payment of the FRC's costs where they consider this to be appropriate. The FRC will only seek to recover costs actually incurred, without any profit element. In light of these points, the FRC does not consider that the requirement for repayment could be considered "punitive".

Accelerated Procedure

Consultation proposals

The AEP Consultation proposed introducing a new route to resolution using suitable, robust evidence already held by the FRC as the basis for proposing breaches and sanctions, rather than opening an investigation under Part 4 of the AEP.

Feedback from stakeholders

Many stakeholders welcomed the introduction of the AP as a new route to resolution which would: (i) support the timeliness of outcomes; and (ii) reduce duplication of work. They emphasised the importance of the FRC ensuring at the outset that the evidence in its possession was robust enough to pursue AP given the FRC would not be undertaking a wider inquiry into matters, precluding the detection of additional or more significant breaches.

Feedback also suggested that the enhanced discount offered under the Early Admissions Process (EAP – discussed further below) should be extended to cases which are settled under the AP.

FRC response

The FRC welcomes the support expressed by stakeholders for the introduction of the AP and its expected benefits, including its potential to expedite case resolution where sufficient existing evidence is available, and a fuller investigation is not required in the public interest.

The FRC acknowledges that care must be taken to ensure the robustness and integrity of the AP process and appropriate rigour applied in establishing whether existing materials provide a sufficient basis for assessing potential breaches and proposing sanctions.

Having considered the feedback, the FRC agrees that the same enhanced discount to a financial sanction under EAP should, in principle and subject to consideration of all the circumstances of the case, also be available for AP, and this is made clear in the supporting guidance.

Acknowledging that responses called for more detail on how the AP would operate in practice, the FRC is publishing guidance. Having considered comments in relation to announcing the commencement of AP and taking into account the specific characteristics of AP, the FRC has decided to include a presumption against commencement announcements in respect of the AP. Further detail on points raised in relation to AP and our responses is included in Appendix B.

Early Admissions Process

Consultation proposals

The AEP Consultation proposed introducing a form of investigation whereby subjects would be permitted by the FRC to carry out their own review of a matter, subject to FRC agreement to the scope and terms, and admit any identified breaches of relevant requirements.

Feedback from stakeholders

Stakeholders broadly supported the proposed EAP. Feedback was received regarding the risk that this process could be perceived externally as putting too much reliance on firm-led self-assessment. Feedback was also received suggesting that the EAP should not necessarily involve 'admissions' given a review may not have yet been undertaken, and felt the title should instead include neutral terminology such as 'evaluation' or 'resolution'.

FRC response

The FRC welcomes the support expressed for the introduction of the EAP and recognises the importance of ensuring the robustness and integrity of the investigative process being maintained. In order to ensure this, Respondents under the EAP will need to agree the terms of the review with the FRC's Executive Counsel and the review must be attested by an independent senior partner (where the Respondent is a Statutory Audit Firm). Executive Counsel will also review the EAP Factual Account produced and determine whether it is sufficiently accurate and complete for the purpose of entering into settlement discussions. Executive Counsel will retain the option to proceed with an investigation, where the EAP Factual Account is not satisfactory.

The FRC remains of the view that the intention is for the EAP to be applied only in cases where Respondents are willing to admit to breaches of relevant requirements, and therefore the name of this route to resolution reflects its design.

The FRC is providing accompanying guidance on how the EAP is expected to operate, including the factors Executive Counsel may consider relevant in determining whether use of the EAP is appropriate.

3. Other issues raised in consultation feedback

The FRC also received feedback from stakeholders on aspects of its enforcement activity which were not included in the scope of the AEP Consultation. This section summarises the key points of feedback and the FRC's position.

Right of appeal to an external Tribunal

Feedback from stakeholders

Some stakeholders commented that the FRC's appeal process should be amended to allow for appeals to an independent, external tribunal, such as the HM Courts & Tribunals Service Upper Tribunal. It was argued that this should be considered both in terms of the AEP and the Accountancy Scheme.[2]

FRC response

The FRC notes the comments received from stakeholders regarding the FRC's Tribunal and Appeal Tribunal arrangements. The FRC is satisfied that the current arrangements are sufficiently independent. Under those arrangements, a decision of a Tribunal and / or an Appeal Tribunal may be subject to judicial review. We would also note that the proposed change would require primary legislation, which is unlikely to be forthcoming in the foreseeable future.

Revising the FRC's position on the accountability of individual auditors

Feedback from stakeholders

Some stakeholders commented that there was no requirement for the FRC to include individual statutory auditors in the scope of investigations when commenced. Instead, they suggested that the FRC's approach should be to return the matter to the Conduct Committee, and for the Conduct Committee to reconsider whether to include individual auditors as and when evidence of a breach of personal responsibilities emerges (as well as when it is in the public interest).

FRC response

Although not part of the consultation, the FRC notes the comments we received about individual statutory auditor and statutory audit firm accountability. These comments generally seek to encourage the FRC to move towards a default position of focusing its enforcement activity more on the firm and less on the individual.

2 The Accountancy Scheme is the FRC's separate disciplinary regime for addressing misconduct by members of participating accountancy professional bodies.

The FRC considers that its current approach takes a balanced view of the shared regulatory responsibility of statutory auditors and statutory audit firms, taking into consideration the relevant and clear responsibilities of each under UK law and international auditing standards.

Although the FRC does not intend to change its current approach, we will continue to engage with interested parties and other audit regulators through IFIAR to gather perspectives and evidence on the issue of the accountability of individuals.

Revising the FRC's publication policy and approach to announcements at the commencement of investigations

Feedback from stakeholders

Some stakeholders raised the FRC's policy relating to making announcements at the commencement of investigations. Some audit firms and law firms suggested announcements should be restricted to the conclusion of cases save in exceptional circumstances, but some stakeholders representing the users of financial statements took the opposite view and valued the transparency of information provided by opening announcements. Other comments from some stakeholders suggested that the FRC should consult on its publication policy as part of revising the AEP.

FRC response

As noted in the consultation document, the FRC is not consulting on its publication policy but intends – having considered responses to the consultation – to issue an appropriate suite of AEP supporting documentation, which will include a revised publication policy. The revised publication policy will take account of the new routes to resolution that will involve publication (whether of openings or outcomes). So far as these relate to Published Constructive Engagement and the Accelerated Procedure, the FRC Board's decisions are reflected in Appendix B to this Feedback and Decision Statement.

As to the FRC's position on the making of investigation opening announcements, the FRC appreciates the impact of these announcements on the parties involved, and recognises the strength of feeling that the issue generates. However, such announcements serve important purposes including: helping to maintain public confidence in statutory auditors and statutory audit firms and in the regulation of those auditors and firms; and protecting users of financial statements and investors.

When deciding whether to make such announcements, the Conduct Committee takes account of all relevant information that is available to it. Where the matters that are the subject of the investigation are already in the public domain (which is the case for most of the announcements that have been made in recent years) the purposes of helping to maintain public confidence in statutory auditors and statutory audit firms and in the regulation of those auditors and firms are likely to be relevant considerations. The purposes of helping to allay concern and/or containing speculation and rumour may also be relevant. Where the matters to which the investigation relates are not already in the public domain, the protection of users of financial statements and investors are more likely to be relevant.

As to potential prejudice to those who are the subject of an investigation, the test for announcing the opening of investigations (as set out in the AEP publication policy) obliges the Conduct Committee to consider any potential prejudice and to weigh this in the balance such that it would only proceed to make the announcement if it considers that the factors in favour of publication outweigh any potential prejudice to the subjects of the investigation.

As to individual respondents, there is a presumption against naming them. However, where the audit (year and entity) that is the subject of the investigation is announced, the name of the individual statutory auditor who signed the relevant audit report (by virtue of Companies Act 2006 requirements) will be identifiable.

Revising the initial scope when opening investigations

Feedback from stakeholders

Some audit firms suggested that the initial scope of an investigation commenced by the FRC should be more narrowly defined, by:

(i) focusing only on documentation contained on the audit file. It was suggested that FRC should have the discretion to require disclosure of further documentation outside the audit file, albeit only where warranted and / or where there is a credible indication of integrity or honesty concerns; or

(ii) the Conduct Committee identifying, in the scope, their specific concerns over audit failings and suspected breaches of relevant requirements. The responses suggested that the FRC should have the discretion to expand the scope of the investigation as evidence emerges to require it.

The responses also suggested that either of the aforementioned approaches would assist with the speed and costs of investigations.

FRC response

The FRC does not agree with the comments that seek to limit the scope of investigations for a number of reasons:

- There is already, at an early stage within the investigation process, a formal meeting (called the 'scoping meeting') between the FRC and those parties subject to the investigation, where the FRC team discusses and sets out the initial focus for the investigation within the scope identified by the Conduct Committee.
- The Conduct Committee determines the scope of an investigation based on the limited information available at that stage, and restricting the scope in the manner proposed could have the effect of undermining the AEP regime and hindering the FRC from properly exercising its functions in the public interest.
- It would not be appropriate for the FRC to adopt a blanket approach to the use of its statutory information gathering powers or the scoping of investigations which ignored the circumstances of the particular case.

4. More detailed feedback and FRC response

Appendix B sets out in more detail the comments the FRC received and the FRC's responses.

5. Updated AEP policies and guidance

The FRC is publishing the following new or updated policy and guidance documentation, to accompany the amended AEP:

Policy / Guidance	Description
Our Approach to Audit Enforcement	This new document provides context for the other more detailed and specific policies by explaining: • How enforcement under the AEP relates to the FRC's purpose, objectives and core values as set out in the FRC_3-Year_Strategy_2025-2028; • The principles that the FRC applies in taking decisions under the AEP; • Who takes the various decisions; and • How the various AEP routes to resolution are intended to work in practice.
Case Assessment and Allocation Policy	This new document replaces the Guidance for the Case Examiner and the Guidance on the Opening of Investigations, setting out the policy of the FRC for taking the decisions required in the initial stages of the AEP, including a non-exhaustive list of public interest factors.
Accelerated Procedure Policy	This new document sets out the policy of the FRC for use of the AP.
Early Admissions Process Policy	This new document sets out the policy of the FRC for use of the EAP.
Sanctions Policy	Minor amendments are made to this existing document, for example to reflect changes to the numbering of the Rules in the AEP. The policy is also amended to reflect the enhanced sanction discount available on the successful completion of the AP and EAP.
Guidance on Retention and Delegation of Investigation Decisions	Minor amendments to an existing document.
Guidance on Disclosure of Unused Material	Minor amendments to an existing document.

Guidance on Approval of Proposed Settlement Agreements under the Schemes and Proposed Settlement Decision Notices under the AEP	Minor amendments to an existing document.
Hearings Guidance	Minor amendments to an existing document.
Publication Policy (AEP)	This existing document is amended to reflect the introduction of PCE and AP.

As requested by stakeholders, the FRC has sought to be as transparent as possible about its intended enforcement approach in the policy and guidance documents. However, the new routes to resolution are untried, and cases must always be decided on their particular facts. The documents therefore preserve the abiïty of the FRC to respond flexibly to different circumstances, and they will be kept under review as the amended AEP is embedded.

Commencement date

The FRC did not receive significant comments on the proposed commencement date for the new AEP arrangements of 1 Juy. The FRC confirms that the amended AEP and accompanying updated guidance will come into force on 1 July 2026.

The revised AEP has been included in Appendix C.

Financial Reporting Council
June 2026

6. Appendix A

List of respondents who have provided written responses

- The Association of Certified Chartered Accountants (ACCA)
- The Association of Investment Companies (AIC)
- The Association of Practising Accountants (APA)
- BDO LLP
- Chartered Accountants Ireland (CAI)
- Clyde & Co LLP
- CPA Australia Ltd
- Crowe UK LLP
- DAC Beachcroft LLP
- Deloitte LLP
- Ernst & Young LLP
- Grant Thornton UK LLP
- Group A (representing Cooper Parry Group Limited, Crowe UK LLP, S&W Partners Group Limited, Forvis Mazars LLP, HaysMac LLP, Moore Kingston Smith LLP, RSM UK Group LLP, and Saffery LLP)
- Forvis Mazars LLP
- The Institute of Chartered Accountants in Scotland (ICAS)
- The International Corporate Governance Network (ICGN)
- The Investment Association
- KPMG LLP
- Moore Kingston Smith LLP
- Price Bailey LLP
- PricewaterhouseCoopers LLP
- PricewaterhouseCoopers Public Interest Board and Audit Oversight Board
- RPC LLP
- RSM UK Audit LLP
- SME Alliance Limited
- Taylor Wessing LLP
- The UK Shareholders' Association

7. Appendix B

FRC response to the consultation on proposed updates to the FRC's routes to resolution

Link to Appendix B

8. Appendix C

Revised AEP

[Link to Appendix C]

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