Financial Reporting Council

Audit Enforcement Procedure

Case Assessment and Allocation Policy

July 2026

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Introduction

1. This document sets out the policy of the FRC for taking the decisions required in the initial stages of the Audit Enforcement Procedure (**AEP**).[1] The purpose is to seek to ensure that consistent and proportionate decisions are taken, although it is recognised that this document cannot cater for every situation, and each matter must be decided on its own unique facts and circumstances. The FRC keeps its policies under review in response to changing circumstances and practical experience.

2. This document uses the term '**Potential Respondent**' to mean a Statutory Audit Firm or Statutory Auditor about whom the FRC has received information under Rule 3 of the AEP. Often the information received by the FRC will relate to the Statutory Audit Firm and the Statutory Auditor who performed an audit, and decisions are taken in respect of both Potential Respondents at the same time. In that situation, the position of each Potential Respondent is considered separately, and different considerations may apply to each of them.

3. The Appendix sets out a non-exhaustive list of factors that the Designated Officer and the Conduct Committee may take into account when assessing the public interest for the purposes of their decisions ('**Public Interest Factors**').

1 This document adopts the definitions used in the AEP

Procedure

4. Part 2 of the AEP (Initial Stages) provides for the following decisions to be taken:

   a. On receiving information about a Potential Respondent, the Designated Officer decides whether to open an enquiry. If an enquiry is opened, the Designated Officer may (but is not required to) use the information-gathering powers in Rule 3B with a view to determining whether there is a question as to whether the Potential Respondent has breached a Relevant Requirement. If the Designated Officer decides not to open an enquiry, the matter does not progress any further under the AEP, unless the Designated Officer subsequently decides that an enquiry should be opened (Rules 3, 3A and 3B).

   b. Where an enquiry is opened, the Designated Officer determines whether the information raises a question as to whether the Potential Respondent has breached a Relevant Requirement. If the Designated Officer determines that no such question is raised, no further action is taken under the AEP (Rule 4).

   c. If the Designated Officer determines that a question is raised, they decide whether the matter should be referred to the Conduct Committee,[2] or whether no further action should be taken under the AEP in respect of it (Rule 5).

   d. Where the Designated Officer determines that a question is raised, they also decide whether to refer the matter to Executive Counsel to consider applying for an Interim Order (an order made by the FRC Tribunal which imposes restrictions pending the outcome of the FRC's investigation or proceedings) (Rule 5).

   e. Where the Designated Officer refers a matter to the Conduct Committee, the Conduct Committee determines whether there are reasonable grounds to suspect that the Potential Respondent may have breached a Relevant Requirement. If the Conduct Committee determines that there are no reasonable grounds to suspect a breach, no further action is taken under the AEP (Rules 6 and 7).

   f. Where the Conduct Committee determines that there are reasonable grounds to suspect a breach, the Conduct Committee decides, having regard to the public interest, whether:

      (i) to direct the Designated Officer to attempt to resolve the matter through Constructive Engagement (**CE**);

      (ii) to direct the Designated Officer to attempt to resolve the matter through Published Constructive Engagement (**PCE**);

2 The AEP confers various functions on the Board, which the Board usually delegates to the Conduct Committee. This document therefore refers to the relevant decisions being taken by the Conduct Committee rather than the Board.

(iii) to direct Executive Counsel to consider the matter in accordance with the Accelerated Procedure (**AP**);

(iv) to refer the matter for investigation; or

(v) to determine that no further action should be taken under the AEP (Rule 8).

g. Where the Conduct Committee refers a matter for investigation, it determines:

(i) the scope of the investigation; and

(ii) whether the investigation should be conducted by Executive Counsel or delegated to the appropriate Recognised Supervisory Body (**RSB**) (Rule 9).

h. Where the Conduct Committee directs the Designated Officer to attempt to resolve a matter through CE or PCE, the Designated Officer decides in due course whether the matter is resolved to their satisfaction. If the matter is not resolved to their satisfaction, they must return it to the Conduct Committee for reconsideration (Rule 13).

i. Where the Conduct Committee directs Executive Counsel to consider a matter in accordance with the AP, Executive Counsel may decide, for specified reasons, to return the matter for reconsideration of the direction at any time before a Notice of Referral to the Tribunal is issued (Rule 14).

j. In addition to reconsidering matters returned in the circumstances described in paragraph 4(h) and (i) above, the Conduct Committee can, in other specified circumstances, reconsider a decision:

(i) by the Designated Officer that the information about a Potential Respondent does not raise a question as to whether the Potential Respondent has breached a Relevant Requirement;

(ii) by the Designated Officer that the information does raise a question, but that no further action should be taken under the AEP;

(iii) by the Conduct Committee that there are not reasonable grounds to suspect a breach;

(iv) by the Conduct Committee that the Designated Officer should attempt CE or PCE; or

(v) by the Conduct Committee that no further action should be taken under the AEP, despite the existence of reasonable grounds to suspect a breach (Rule 11).

k. When deciding whether to reconsider a decision or when reconsidering a decision, the Conduct Committee decides whether to direct the Designated Officer to make further enquiries for the assistance of the Conduct Committee (Rule 16).

5. In this document, CE, PCE, AP and investigation are referred to as the '**routes to resolution**'.

6. The person appointed as Designated Officer will ordinarily be the FRC's Executive Director of Supervision. The Designated Officer or the Board may delegate the Designated Officer functions as appropriate. Where the Designated Officer delegates decisions under Rules 4 and 5, it is usually to another Executive Director of the FRC (other than Executive Counsel). The day-to-day conduct of enquiries under Rule 3, the preparation of material for submission to the Conduct Committee under Rule 5 and the resolution of matters by CE or PCE under Rule 8 are generally delegated to suitably qualified staff within the FRC's Supervision Division. Input from throughout the FRC may be taken into account when carrying out the tasks of the Designated Officer.

Deciding whether to open an enquiry

7. Information about a Potential Respondent may be received from many different sources, external and internal to the FRC. All matters within the knowledge of the FRC do not automatically fall to be considered by the Designated Officer.

8. On receipt of information the Designated Officer confirms that the information relates to a Statutory Audit Firm or Statutory Auditor, and concerns a matter within the scope of the FRC's retained regulatory activity, or a matter relating to the conduct of third country audit functions.[3] Matters outside the FRC's retained remit are the responsibility of the RSBs, but the Designated Officer can reclaim a matter from an RSB where appropriate.

9. The Designated Officer opens an enquiry if the matter appears to be one in respect of which they would be likely to make a recommendation to the Conduct Committee for use of one of the routes to resolution (see paragraph 14 below).

10. While this decision requires an assessment of the public interest, including consideration of the Public Interest Factors, the Designated Officer's consideration is constrained by the limited amount of information available at this stage. In assessing the matter, the Designated Officer is likely to be limited to considering:

    a. The facts of the potential breach(es) (having particular regard, for example, to their impact on the financial statements, whether they relate to an actual or potential material misstatement, or whether they involve a failure to make appropriate disclosure in respect of going concern);

    b. The harm caused or risked (having particular regard, for example, to the importance of the audited entity, and the extent of any actual or potential financial loss or harm to public confidence); and

    c. The culpability of the Potential Respondent (being particularly alert for those rare instances where there are indications of dishonesty, lack of integrity, lack of independence or objectivity or intentional or reckless failings).

11. The Designated Officer also considers the credibility of the information received, having regard to its source and nature. The Designated Officer is mindful of the fact that, unless they open an enquiry, the matter does not progress further under the AEP.

[3] The FRC retains matters relating to the statutory audits of Public Interest Entities (PIEs) (being listed entities, credit institutions and insurance undertakings), AIM-listed companies with a market capitalisation in excess of €200m and Lloyds Syndicates. Matters concerning third country audit functions, as defined in regulation 11(8) of the Statutory Auditors and Third Country Auditors Regulations 2016, are the statutory responsibility of the FRC.

Determining whether a question is raised

12. Where the Designated Officer has opened an enquiry, they have powers to obtain information and obtain specialist advice (including expert or legal advice) to help them determine whether information raises a question as to whether a Relevant Requirement has been breached. Use of these powers should be limited to assisting the Designated Officer with the determination of whether the information raises a question

13. The determination as to whether the available information raises a question as to whether the Potential Respondent has breached a Relevant Requirement is an objective test: the Designated Officer considers whether the available information would satisfy an objective observer that the Potential Respondent may have breached a Relevant Requirement.

Referral to the Conduct Committee

14. Where the Designated Officer determines that the information raises a question as to a breach of a Relevant Requirement, they then decide whether the matter should be referred to the Conduct Committee. In doing so, the Designated Officer has regard to the approach set out in paragraphs 17 to 33 below.

15. Where a matter is referred, the Designated Officer provides the Conduct Committee with the information necessary for the Conduct Committee to decide:

    a. Whether there are reasonable grounds to suspect that the Potential Respondent has breached a Relevant Requirement, and if so,

    b. Whether any further action should be taken under the AEP, and if so,

    c. The route to resolution that should be pursued.

16. The information identifies the Relevant Requirement(s) that may have been breached and includes a recommendation as to the determination that the Conduct Committee should make.

Determining whether there are reasonable grounds to suspect that a Relevant Requirement may have been breached

17. The Conduct Committee considers whether there are reasonable grounds to suspect that the Potential Respondent may have breached any Relevant Requirement identified by the Designated Officer, and any other Relevant Requirement apparent to the Conduct Committee from the information provided to the Conduct Committee by the Designated Officer.

18. The test is met where: (i) the Conduct Committee itself suspects that there may have been a breach, and (ii) a reasonable person in possession of the same facts would suspect the same.

Routes to resolution

General principles

19. Where the Conduct Committee decides that there are reasonable grounds to suspect a breach of a Relevant Requirement, the Conduct Committee determines whether one of the routes to resolution should be pursued and, if so, which one.

20. The fact that a breach is suspected does not mean that a route to resolution must be pursued. Where no further action is taken under the AEP, the matter can still be the subject of supervisory engagement by the FRC or referral to another body.

21. The Conduct Committee has regard to:

    a. The restrictions in the AEP on the availability of some of the routes to resolution;

    b. The public interest; and

    c. The principle of proportionality, which requires (among other things) that any action taken under the AEP should be the minimum necessary to satisfy the public interest (noting that the public interest may not necessitate any further action at all).

Identifying the available routes to resolution

22. CE and PCE can only succeed with the cooperation of the Potential Respondent, and should not be directed unless the Potential Respondent has indicated to the Designated Officer their willingness, in principle, to participate. The expression of such willingness does not predetermine the route to resolution, as this remains at the discretion of the Conduct Committee.

23. AP is only available where the Relevant Information may provide a sufficient basis for Executive Counsel to determine whether the Potential Respondent has breached a Relevant Requirement and should be liable for Enforcement Action. It is not necessary for the Conduct Committee to be satisfied that the Relevant Information does provide such a sufficient basis: only that it may do so.

24. In determining whether the Relevant Information may provide such a sufficient basis, the Conduct Committee has regard to all relevant circumstances, which may include:

    a. The source and nature of the Relevant Information, and what this may mean for its reliability;

    b. The process by which the Relevant Information was prepared, including whether the Potential Respondent was involved in its preparation;

    c. Whether the Relevant Information has been accepted by the Potential Respondent; and

d. Whether it would be fair to rely on the Relevant Information.

Assessing the public interest

25. In identifying the minimum action under the AEP that would satisfy the public interest, the Conduct Committee assesses the public interest by reference to all relevant circumstances, including the Public Interest Factors.

26. The Conduct Committee takes account of those Public Interest Factors that appear to be relevant and in respect of which information is available, including those tending to suggest that no further action should be taken under the AEP. The Conduct Committee's assessment is likely to be reliant on those factors listed in respect of the Designated Officer's assessment (see paragraph 11 above). The assessment is made on the assumption that the available information is accurate, that the suspected breaches occurred as suggested by that information, and that they had the actual or potential consequences indicated by the information.

27. The Conduct Committee exercises its judgement in deciding what weight to give to any particular Public Interest Factor. There may be instances where a single factor is of such overriding importance that it dictates the required response, but generally the Conduct Committee will make a holistic assessment of the matter, overall.

Determining the appropriate route to resolution

28. If the Conduct Committee is satisfied that the public interest can only be met by taking action under the AEP, the Conduct Committee decides what is the most appropriate route to resolution. The Conduct Committee takes into account any ongoing FRC engagement with the Potential Respondent which is relevant to the issues appearing to give rise to the suspected breach(es), including CE, PCE or Sanctions in other cases.

CE or PCE

29. CE or PCE (if available) will usually be the most appropriate route where all of the following apply:

    a. The suspected breach(es), while not trivial, are of relatively low intrinsic potential seriousness (see Section A of the Public Interest Factors);

    b. The suspected breach(es) involved no actual, and limited potential, financial harm or damage to confidence (see Section B of the Public Interest Factors);

    c. The suspected breach(es) were inadvertent (see Section C of the Public Interest Factors);

    d. The Potential Respondent has taken, or indicated a willingness to take, steps to prevent any recurrence of the suspected breach(es) (see section D of the Public Interest Factors); and

e. The Potential Respondent either has a clean disciplinary record or has responded positively to past regulatory action (see section E of the Public Interest Factors).

30. PCE (if available) will usually be the more appropriate of these two routes where the nature of the suspected breach(es) is such that (while still of relatively low intrinsic potential seriousness) they should be publicised, for the purposes of deterrence, transparency or education.

Investigation or AP

31. Investigation or AP will usually be the more appropriate routes where the potential seriousness or significance of the matter is such that formal findings of breach(es) and Sanctions may be justified in order to declare and uphold proper standards of conduct, maintain and promote public and market confidence, protect the public and/or deter further breaches.

32. AP (if available) will usually be the more appropriate of these two routes where the potential seriousness or significance of the matter is such that:

a. The risk that the Relevant Information does not fully reflect the substance of the failings by the Potential Respondent is considered acceptable;

b. The maintenance of public confidence does not require the heightened scrutiny provided by investigation; and

c. The likely additional duration and cost of investigation (compared with AP) would be disproportionate.

33. The Conduct Committee keeps in mind that, if the use of CE or PCE is directed but the matter is not resolved to the satisfaction of the Designated Officer, it may be returned to the Conduct Committee by the Designated Officer for reconsideration of the direction, and it may then be necessary to direct the use of AP or refer the matter for investigation, in order to maintain the integrity of the regulatory regime.

Investigation scope

34. Where the Conduct Committee refers a matter for investigation, it determines the scope of the investigation in a way that does not unduly restrict Executive Counsel's ability to obtain information, in the expectation that Executive Counsel will pursue the investigation in a targeted and proportionate manner. The scope is therefore usually defined by reference to the entirety of the audit(s) concerned. The initial focus of the investigation, within the scope set by the Conduct Committee, is usually explained to the Respondent by Executive Counsel in a scoping meeting held within a month of the investigation being opened.

Delegating an investigation

35. Where the suspected breach of a Relevant Requirement relates to a Public Interest Entity and the matter has been brought to the Conduct Committee's attention as a result of the FRC's audit monitoring activity, delegation to an RSB is not permitted by law. The Conduct Committee will consider whether to delegate the investigation of any other matter to an RSB, but this is only likely to be appropriate in limited circumstances. In making such a decision, the Committee has regard to all relevant circumstances including:

    a. The likely size and complexity of the investigation;

    b. The resources available to the FRC and the RSB; and

    c. Whether public confidence in the regulatory regime would best be maintained by an investigation by the FRC rather than by the RSB.

Reconciliation

Return of a matter in respect of which CE or PCE has been directed

36. Where a matter is returned to the Conduct Committee for reconsideration because the Potential Respondent has failed to agree to the terms of PCE or the Designated Officer has been unable to resolve a CE or PCE matter to their satisfaction, the Conduct Committee determines the appropriate response having regard to paragraphs 17 to 33 above. However, the Conduct Committee keeps in mind the adverse effect on the integrity of the regulatory regime if Potential Respondents, who refuse to participate satisfactorily in CE or PCE, are not held to account for suspected breaches of Relevant Requirements.

Return of a matter in respect of which AP has been directed

37. Where an AP matter is returned to the Conduct Committee, Executive Counsel provides the Conduct Committee with an explanation of the reasons, and makes a recommendation as to how the matter should be dealt with. In deciding the appropriate response, the Conduct Committee has regard to paragraphs 17 to 33 above.

Reconsideration in other circumstances

38. Where the Designated Officer becomes aware of information indicating that there may be grounds to reconsider a decision to take no further action under the AEP or to direct the use of CE or PCE, the Designated Officer reports the matter to the Conduct Committee with a recommendation as to whether the Conduct Committee should direct further enquiries or reconsider the matter on the basis of the information already available. In the latter case, the Designated Officer makes a recommendation as to the outcome of the reconsideration.

39. Where the Conduct Committee decides to reconsider a decision it must take into account any representations received, and will also have regard to paragraphs 17 to 33 above.

Direction to the Designated Officer to make further enquiries

40. The Conduct Committee may indicate to the Designated Officer the nature of enquiries which would assist it in deciding whether to reconsider a decision, or in carrying out the reconsideration.

Interim Orders

41. Where the Designated Officer determines that information about a Potential Respondent raises a question as whether they have breached a Relevant Requirement, the Designated Officer conducts an early risk assessment to identify whether to refer a case to Executive Counsel to apply for an Interim Order.

42. The Designated Officer considers whether an Interim Order is necessary for the protection of the public or in the public interest. Factors which might indicate that a case should be referred to Executive Counsel include:

    a. Suspected serious breach(es) of the Relevant Requirements;

    b. Ongoing risk of harm to investor, market or public confidence in the truth and fairness of the financial reporting of an entity; or

    c. Ongoing risk of significant financial detriment or other harm for those reliant on the Statutory Auditor or Statutory Audit Firm's compliance with the Relevant Requirements.

Appendix – Public Interest Factors

A.	**The facts of the potential breach(es)** *This section is concerned with the potential breach(es) viewed in isolation, without regard to any consequences outside the financial statements or the audit, or to circumstances particular to the Potential Respondent.*
A1.	The extent of the potential breach(es), by reference to their number, the number of different areas of the audit in which they occurred, and whether they had a pervasive or widespread impact on the audit(s).
A2.	The duration of the potential breach(es), including whether they persisted through several stages of the audit, or more than one audit.
A3.	The nature and significance of the Relevant Requirement(s) potentially breached.
A4.	The degree to which the audit work may have departed from the Relevant Requirement.
A5.	The impact of the potential breach(es) on the financial statements, by reference to the size, nature and importance of the relevant line items.
A6.	Whether the potential breach(es) related to an actual or potential material misstatement or disclosure deficiency, and the size, nature and significance of any such misstatement or deficiency.
A7.	Whether the potential breach(es) involved a failure to make appropriate disclosure in respect of going concern, relating to a company which either is experiencing financial difficulties or has subsequently entered an insolvency process.
A8.	The impact of the potential breach(es) on audit reporting, including the appropriateness of the audit opinion, the accuracy of the audit report and the completeness of reporting to those charged with governance.
A9.	Whether the potential breach(es) involve a failure of the firm's system of quality management.

B.	**Harm caused or risked** *This section is concerned with the actual or potential consequences of the breach(es), outside the financial statements or the audit.*
B1.	The economic, systemic or public importance of the audited entity in the UK, for example by reference to its listing status, its turnover, the size of its workforce, the number and nature of its suppliers and other creditors, and the scale and nature of its activities (including the extent to which they impact on the public).
B2.	The extent of any actual or potential financial loss (where there is a clear causal link between the potential breach(es) and the loss).
B3.	Where there is actual or potential financial loss, the number and nature of those affected.
B4.	The extent of any actual or potential harm to public confidence in corporate reporting or audit, or in the standards of conduct of the audit profession.
C.	**Potential Respondent's apparent culpability** *This section is concerned with the level of the Potential Respondent's blameworthiness and responsibility for the breach(es), to the extent that there is relevant information available.*
C1.	Whether the potential breach(es) appear to involve dishonesty or a lack of integrity.
C2.	Whether the potential breach(es) appear to have been intentional or reckless.
C3.	Whether the breach(es) were motivated by financial gain (other than the fee charged for performing the audit, unless the Potential Respondent knew that they should not have been performing the audit at all).
C4.	Whether the breach(es) involved abuse of a position of trust (noting that an auditor is not regarded as holding a position of trust in relation to the audited entity, for these purposes, solely by virtue of performing the audit).
C5.	Whether the breach(es) involved the absence or contravention of a registration, authorisation or licence.
C6.	Whether the breach(es) amounted to the commission of a criminal offence in the UK or elsewhere.

C7.	Whether the Potential Respondent was solely responsible for the breach(es).
C8.	Whether the Potential Respondent caused, encouraged or facilitated wrongdoing by anyone else.
C9.	In the case of an individual Potential Respondent, their seniority (for example, whether they were a partner in the audit firm rather than an employee).
C10.	Whether the Potential Respondent was deliberately misled or coerced by anyone else (noting that ethical standards prohibit an auditor from accepting or continuing with an audit if there is any threat of intimidation which would compromise their independence).
D.	**Potential Respondent's response to the breach(es)** *This section is concerned with action taken by the Potential Respondent after the potential breach(es) occurred.*
D1.	The extent of the Potential Respondent's transparency and honesty about the potential breach(es) before they came to the attention of the FRC (for example, in proactively reporting them).
D2.	The extent of the Potential Respondent's cooperation, after the potential breaches came to the attention of the FRC.
D3.	The extent to which the Potential Respondent has taken action to remedy the potential breach(es) and prevent a recurrence.
D4.	The extent of the Potential Respondent's insight, contrition and remorse.
E.	**Potential Respondent's record and circumstances** *This section is concerned with the Potential Respondent's record of past compliance and other relevant circumstances, to the extent that information is available.*
E1.	The Potential Respondent's past regulatory record, including any action by the FRC under the AEP.
E2.	Any previous similar breach(es) that did not result in action under the AEP but were drawn to the Potential Respondent's attention by the FRC (for example, in a previous inspection).

E3.	The Potential Respondent's response to previous supervisory or enforcement interventions by the FRC.
E4.	In the case of an individual Potential Respondent, their seniority (for example, whether they were a partner in the audit firm rather than an employee).
E5.	In the case of an audit firm, the size and importance of the firm within the market.
E6.	Any sanctions imposed, or likely to be imposed, by another regulator or the Potential Respondent's employer.
E7.	Any other mitigating circumstances personal to the Potential Respondent (for example, in the case of an individual, significant ill health).
F.	**Wider considerations** *This section is concerned with factors that may have a bearing on the proportionality of action under the AEP.*
F1.	Whether the potential breach(es) are of a nature or in an area that the FRC has indicated is of particular concern, or will be the subject of particular regulatory attention.
F2.	Whether there is a particular need to deter or prevent similar breach(es) from occurring in the future, for example because they are of a kind that: (if) appears to be becoming more prevalent (ii) may be particularly tempting for other auditors to commit, or (iii) is particularly difficult to detect or prove.
F3.	The likely duration and cost of action under the AEP.
F4.	The extent to which enforcement action is likely to promote or harm economic growth.

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