

Corporate & Financial Weekly Digest

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FSA and FRC Publish Feedback on the Role of Auditors

On March 10, the UK Financial Services Authority (FSA) and the Financial Reporting Council (FRC) published a joint feedback statement, *Enhancing the auditor's contribution to prudential regulation* FS11/1, summarizing the responses to their June 2010 joint discussion paper, DP10/3, similarly titled.

DP10/3 was intended to stimulate debate on the contribution that auditors make to prudential regulation. It examined several key areas: (a) promoting dialogue and information-sharing between auditors and supervisors; (b) the application of professional scepticism by auditors; (c) the nature and extent of disclosures about management's key judgements; (d) FSA and FRC powers; and (e) the scope of auditors' reporting.

Following the discussion paper and wider work in this area, a number of actions have already been taken to enhance the role of auditors including: (a) development of a draft code of practice by the FSA, alongside the Bank of England, designed to enhance the dialogue between auditors and supervisors (see the [February 11](#) edition of *Corporate and Financial Weekly Digest*); (b) increased dialogue between the FSA and auditors, individually and collectively, to discuss key financial reporting issues; (c) increased and more effective use by the FSA of Section 166 skilled person reporting; and (d) formalization of cooperative arrangements between the FSA and the FRC's Audit Inspection Unit, in a memorandum of understanding.

In addition, on March 10 the FRC also published feedback on its parallel discussion paper: *Auditor Scepticism: Raising the Bar*. The FRC confirms in this paper that it will continue to monitor the extent to which professional scepticism is being applied by auditors. It also announced measures designed to ensure a consistent understanding of the nature and role of auditor scepticism and appropriate support for, and transparency of, its application.

Click [here](#) to read the FSA/FRC joint feedback statement FS11/1.

Click [here](#) to read the FRC's feedback paper.

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