



News release

10 February 2011

Joint News Release by the FSA and the Bank - FSA and Bank of England announce new draft code of practice for auditors and supervisors

Following joint work with the Bank of England, the Financial Services Authority (FSA) has today published, for consultation, a draft code of practice designed to enhance the dialogue between auditors and supervisors. The aim of the code is to improve audit effectiveness and ensure that supervisors are better informed about, and able to challenge, the firms they regulate. Auditors have an important role to play in the supervisory process as the annual financial statements that they audit form the basis of the prudential information that the FSA uses when supervising firms.

The code of practice proposes a framework for auditors and supervisors to work together in an open and collaborative way. This increased coordination will enhance the ability of the FSA to scrutinise specific accounting practices and related judgements in order to understand fully their implications and to highlight emerging problems. Equally, auditors are expected to gain valuable insights from their dialogue with the FSA when gathering evidence to support their audit opinions.

Principles are set out in the code for auditors and supervisors to follow when they deal with regulated firms. These cover the nature of the relationship between the supervisor of a regulated firm and the firm's external auditor, how often and in what form they should be communicating with each other and the way that information should be shared between them.

For certain firms, the code specifies a minimum level of formal meetings between the supervisor, the external auditor and the firm. It also encourages discussions through informal channels to help both supervisors and auditors fulfil their responsibilities towards regulated firms and enhance the effectiveness of the supervisory and audit process.

Andrew Bailey, Executive Director of the Bank of England, said

"With its emphasis on the importance of an open and constructive relationship, we are very pleased to be able to publish this draft code today as an important first step in redefining the nature of the auditor's role in the new regulatory framework."

Richard Thorpe, FSA auditing and accounting sector leader said

"The FSA and its successor organisations, as supervisors, need to have confidence in audited financial information to ensure that we are making informed judgements and the right decisions when supervising firms. The code announced today will help us to achieve this and News release News release News release makes it more likely that auditors will identify issues and risks that relate to our objectives of market confidence and financial stability."

Notes for Editors

1. The **draft Code of Practice for the relationship between the external auditor and the supervisor** can be found on the FSA website.
2. The Bank of England set up a joint Working Group with the FSA in September 2010 chaired by Alan Ball, a Senior Advisor in the Bank's Financial Stability Directorate, to establish a framework for improving the relationship and information flows between the audit profession and the supervisor. The Financial Reporting Council, the six major audit firms and the Institute of Chartered Accountants in England and Wales were represented on the Group.
3. The FSA regulates the financial services industry and has four objectives under the Financial Services and Markets Act 2000: maintaining market confidence; securing the appropriate degree of protection for consumers; fighting financial crime; and contributing to the protection and enhancement of the stability of the UK financial system.

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The **FSA news release** is available here.