

Independent Review of the Financial Reporting Council

Advisory Group Meeting – 17 September 2018

Summary Minutes

Those present:

Sir John Kingman
Lucinda Bell
John Cridland
Sir Peter Gershon
Teresa Graham
Mary Keegan
Nikhil Rathi
Anne Richards

Apologies:

Mark Burgess
Amelia Fawcett
Amelia Fletcher
Simon Fraser

Secretariat:

Amy Ellison
Claire Hardgrave
Sanu de Lima
Robin Mueller
Sam Oakley
Chris Thresh

1	Welcome and Apologies
	<p>Sir John welcomed everybody to the meeting, and introduced new members of the Review's Secretariat.</p> <p>Apologies were noted.</p>
2	Minutes of the last meeting
	<p>The minutes of the last meeting were agreed.</p>
3	Audit Quality Reviews
	<p>A paper on the Audit Quality Review (AQR) process was discussed. Some work was still ongoing, given the rich quantity of engagement and issues to consider. Emerging conclusions and recommendations were clear, though it was noted that the forthcoming visit to Washington and the Netherlands would also be of relevance.</p> <p>In discussion, it was noted that:</p> <ul style="list-style-type: none">- The extent to which AQR findings resulted in changes to company accounts, or to inappropriate audit opinions was extremely rare; and that it was nevertheless

	<p>important for the AQR process to be of value to the market.</p> <ul style="list-style-type: none"> - Both the exercise of judgement by the AQR team, and their challenge of judgements in reviewing audit work were of critical importance. - The AQR grading system was intended to differentiate between the quality of audit work, and that the 'score' given had an impact on firm and partner reputation. - The Review would reach a conclusion on the transparency of reporting AQR findings; the volume to be undertaken, and methodology for determining that volume (whether it should be statistically significant, or risk-based for example). <p>The complex and international nature of some companies was discussed; and the responsibilities of, and arrangements for co-operation and joint inspections between regulators were considered.</p> <p>Consequences of inspection grading scores (or failure) were considered, along with alternative models for the conduct of inspections, including in other analogous regulatory areas in which judgements were being tested. Clarifying the purpose and objectives of the regulatory approach was key.</p>
4	Regulation
	<p>A paper on regulation was considered.</p> <p>The current system and arrangements of regulation and oversight of both professionals and firms were discussed, noting the distinction between statutory audit requirements in relation to Public Interest Entities; and the voluntary oversight arrangements in place in relation to accountants.</p> <p>Comparator approaches were considered; along with the responsibilities resting with companies to produce accurate accounts, and regulators' ability to act against Directors where necessary.</p> <p>Read-across to Standard-setting was considered, along with the needs of users of accounts.</p> <p>The Group commissioned further work from the Secretariat.</p>
5	FRC Function and Purpose
	<p>A paper on the purpose and function of the FRC was discussed by the Group. It was noted that the Review would reach a conclusion on where the FRCs current functions should sit; and how best coordination with other regulators ought to be achieved. The Review would also propose against what objectives FRC functions should be held to account; and what the overarching mission should be.</p> <p>The question of separating FRC functions was considered, and comparator approaches were discussed. Discussion included whether there was a case further to separate the FRC's Standard-setting and enforcement functions.</p> <p>FRC resource, spending and impact in relation to key areas of its remit was considered.</p> <p>The Group commissioned further work from the Secretariat.</p>

6	FRC Internal Governance
	<p>A paper was considered by the Group, including on the FRC's Board and committee structure, and recruitment.</p> <p>The question of whether the FRC Board should be representative of stakeholder voices was considered.</p> <p>There was discussion on the key interests of the Board, and extent to which it was appropriate for the Board of a such a regulatory body to take an interest in its regulatory activities, including on individual decisions.</p> <p>The Review would make recommendations on the size, appointment and principles for composition of the Board; and its proposed key functions.</p>
7	Actuarial Oversight
	<p>A verbal update was a given following further discussions and consideration of relevant issues regarding the FRC's role in oversight of the actuarial profession.</p>
8	AOB
	<p>The FRC's roles in relation to Local Authority audit, and NAO (statutory) audit work were discussed; with further work to be undertaken by the Secretariat.</p>