

Independent Review of the Financial Reporting Council

Advisory Group Meeting – 7 August 2018

Summary Minutes

Those present:

Sir John Kingman
Lucinda Bell
John Cridland (on the telephone)
Amelia Fletcher (on the telephone)
Simon Fraser
Sir Peter Gershon (on the telephone)
Teresa Graham (on the telephone)
Mary Keegan (on the telephone)
Nikhil Rathi
Anne Richards

Apologies:

Mark Burgess
Amelia Fawcett

Secretariat:

Claire Hardgrave
Amy Ellison
Paula Lovitt
Peter Stevenson
Peter Wade

1	Welcome and apologies
	Sir John welcomed everybody, including those on the telephone. Apologies were noted.
2	Minutes of the last meeting
	The minutes of the last meeting were agreed.
3	Verbal update on review of AQR process
	<p>As part of the Review's remit to consider the impact of the FRC, work would be undertaken to assess the effectiveness of the Audit Quality Review process. A series of meetings were planned, including with the FRC, one of the recognised supervisory bodies, and with some of the large and mid-tier audit firms. Expert members of the Advisory Group would participate in discussions.</p> <p>The information gathered would feed into a paper on audit quality for the next Advisory Group meeting.</p>
4	External facing issues – Actuarial Oversight, and Audit Expectation Gap

Actuarial oversight

A paper on actuarial oversight was considered. It was noted that the oversight conducted by the FRC of the actuarial professional body (the Institute and Faculty of Actuaries (IFoA)) was conducted under a voluntary arrangement; that the FRC's enforcement remit was limited to investigating potential misconduct by individual actuaries (not firms); and that the FRC's remit did not extend to monitoring of the quality of actuarial work.

Discussion focused on issues of principle, including on:

- The model of oversight introduced following Sir Derek Morris's Review;
- The value added by the FRC's involvement in the landscape of oversight, alongside that of the Prudential Regulation Authority and The Pensions Regulator;
- The role and importance of actuarial work in relation to corporate reporting.

The Advisory Group noted the actuarial expertise needed in bodies undertaking oversight functions.

The Advisory Group proposed next steps for this work strand, including with other regulators, which would be taken forward by the Secretariat.

Audit Expectation Gap

A paper on the audit expectation gap was considered.

The Advisory Group acknowledged that the Review's remit was part of a wider set of issues, and noted the separate review being established by the Audit Quality Forum.

The Group's view was that the FRC Review's focus ought to be the FRC's role in relation to the audit expectation gap. The Group discussed a range of issues and potential options including on proposals already in the public domain; on indicators of concern; the information needs of investors and shareholders; how nuance arising from the exercise of judgement in fair value accounting could be reflected; the role of the viability statement and statements as to going concern; the responsibilities of and expectations on Directors; options available to auditors wishing to raise unease; and the transparency of AQR reports.

Issues of proportionality were noted.

The Group made suggestions on issues that should be considered in this work-strand, and noted that responses to the Call for Evidence would assist in refining the paper further.

5 Internal facing issues – Funding, and Pay

Funding

A paper was considered on FRC funding, which set out FRC's current funding arrangements, and comparator models used by other regulators and international bodies.

	<p>In discussion the Group noted the FRC’s reliance on levels of voluntary funding, and agreed that the Review would make recommendations on whether or not this should continue. The Group also noted that the Review might need to take a view on whether the FRC was underfunded, and that further work would be needed on that question.</p> <p><i>Pay</i></p> <p>A factual paper was taken on FRC pay setting out comparator pay and overarching staffing information for the FRC and comparator bodies.</p> <p>The Advisory Group asked the Secretariat to commission further information from the FRC to assist with work to identify the necessary skill mix and the levels of staffing needed for key functions, and to understand other factors affecting recruitment at the FRC.</p> <p>In discussion the Group noted the importance of the FRC being able to attract highly talented expert professionals, and to maintain a healthy churn rate to ensure fresh thinking, with appropriate controls to ensure real and perceived conflicts of interest did not arise.</p>
6	Approach to future Advisory Group meetings
	<p>The Advisory Group agreed the proposed approach and timetable for forthcoming meetings. Some issues would be considered in correspondence, and the length of meetings scheduled for September and October would be extended.</p>
7	AOB
	<p>The Review’s Call for Evidence closed on the 6 August with a good number of responses from a diverse group of stakeholders, which would be analysed by the Secretariat. A sample of responses to the call for evidence would be sent to the Advisory Group for consideration, alongside a list of those organisations that had submitted responses. If the Advisory Group would like to see responses not covered in the sample the Secretariat would provide them on request.</p>