

# Independent Review of the Financial Reporting Council

## Advisory Group Meeting – 10 July, 2018

### Summary Minutes

#### Those present:

Sir John Kingman  
Lucinda Bell  
Mark Burgess  
Amelia Fletcher  
John Cridland  
Sir Peter Gershon (via phone)  
Teresa Graham (via phone)  
Dame Mary Keegan  
Simon Fraser

#### Apologies

Nikhil Rathi  
Anne Richards  
Dame Amelia Fawcett

#### Secretariat

Claire Hardgrave  
Paula Lovitt  
Peter Stevenson

---

<b>1</b>	<b>Welcome and apologies</b>
	Sir John Kingman welcomed everybody including those on the telephone. Apologies noted.
<b>2</b>	<b>Minutes of the last meeting</b>
	The minutes of the last meeting were agreed.
<b>3</b>	<b>Update on thinking so far</b>
	<p>Sir John updated the Group on the wide range of meetings he had conducted since the last meeting, both with the FRC and other stakeholders. In discussion various points were noted, including:</p> <ul style="list-style-type: none"><li>- Feedback that the introductory sessions with the FRC key staff were useful for the Advisory Group and assisted their understanding of the current remit and challenges of the organisation. Additional sessions had been arranged for those who were unable to attend previously.</li><li>- <b>The Advisory Group commissioned a paper from the Secretariat on the Audit Expectation Gap, including a description of the gap over time. Findings would be discussed at the next meeting.</b> Discussion on</li></ul>

	<p>the issue provisionally concluded that the Review’s role was not to fix any gap, but rather describe it better and conclude what role the FRC should play. It was also noted that there have been various audit expectation gaps throughout history – all of which were slightly different. Agreement that there may be value in articulating the expectation gap in the final report.</p> <ul style="list-style-type: none"> <li>- <b>A programme of work was agreed to examine the effectiveness of the current AQR process.</b> The Advisory Group experts in this area would work with the Secretariat to examine the process, including a cold review of redacted AQR reports, firm reports and thematic reports and interviews with FRC staff. <b>The Group also commissioned work to understand how the FRC and Regulatory Supervisory Bodies undertook regulation and oversight of firms conducting audit work.</b></li> <li>- Discussion highlighted that while audit provides assurance over the ‘back-end’ of the Report and accounts (i.e., a post-hoc examination of what the accounts say), recent corporate failures resulted from the ‘front-end’ going wrong (ie, Directors acting with poor or possibly deliberately misleading judgement). The FRC has responsibility for the back-end; but the Review would need to consider carefully what the FRC’s role should be on the “front-end”.</li> <li>- On actuarial work, it was important to understand the extent to which prudential regulation of pensions and insurance does or does not require regulation of the profession. This would be explored further with tPR and PRA.</li> <li>- On the Stewardship Code, there was consensus that the assessment process could more meaningfully show which firms took stewardship seriously, and which do not. A separate more in-depth discussion would be arranged with relevant Advisory Group members on investor engagement issues.</li> </ul>
<b>4</b>	<b>AOB</b>
	<p>It was agreed that the dates for the stakeholder roundtables would be circulated to the Advisory Group and that they were welcome to attend, where possible.</p>