



Department for
Business, Energy
& Industrial Strategy

The Rt Hon Greg Clark MP
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Dear Mr Haddrill

As the Government publishes its response to Sir John Kingman's Independent Review of the Financial Reporting Council, I wish to act straight away on Sir John's second recommendation: to issue a 'remit letter' setting out policies to which the FRC should have regard when pursuing its objectives and duties over this financial year. I expect to send a further letter to you after we have completed our consultation on the regulator's proposed objective and duties.

High quality audit, corporate governance and financial reporting are vital to the success and continued growth of our economy. The confidence that shareholders, employees, investors and the wider public can place in company reports and audited accounts is dependent in part on the effectiveness of the regulatory framework.

I have accepted Sir John's recommendations to create a new independent statutory regulator, and the Government has published a consultation document which seeks views on several aspects of its operation and remit. It will require a programme of transformation for the FRC to transition into the new statutory regulator. While some of the changes will require legislation, many aspects of transformation can and should be undertaken or initiated in advance of legislation.

Taking forward those transitional steps should therefore be a priority for the FRC over this year. I welcome the commitment that the FRC has already made to work with my Department to deliver those changes over the coming months.

Trust in the sector has been damaged by recent failures. Whilst these reflect a minority of companies and audits, it is important that when standards and requirements are not met, specific and thematic concerns must be dealt with, including through continued cooperation with other regulators. Action may also be needed to ensure that auditors understand the expectations on them. Inspection and enforcement should therefore remain clear priorities for the FRC. Following recent evidence given to the BEIS Select Committee by audit firms, I would encourage the FRC to take steps to ensure that audit firms are correctly applying audit standards in relation to fraud.

In relation to the FRC's existing areas of work, I expect the FRC to continue to discharge its existing statutory and non-statutory functions which together serve to promote transparency and integrity in business.

- As the competent authority for Statutory Audit in the UK, the FRC should continue to set auditing and ethical standards and to monitor and enforce audit quality.
- The FRC should also continue with its work relating to the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work.
- It should continue to monitor and take action to promote the quality of corporate reporting.
- The FRC should continue to operate independent enforcement arrangements for accountants and actuaries as well as providing some oversight, by arrangement, of those professions' membership bodies' regulation of their members.

Where these matters overlap with recommendations of the FRC Review, the CMA's study, and Sir Donald Brydon's Review of audit quality and effectiveness, my expectation is that the FRC will work closely with the review teams and with my Department in order to consider the timing and ensure the coherence of any action taken. Naturally, such a commitment to engagement extends to the direction of the FRC's work, and not to individual matters of its regulatory operation.

I am grateful to the hard-working staff of the FRC for their continued commitment, and to the FRC's leadership for its engagement in the programme of change we are embarking on.

Yours sincerely



THE RT HON GREG CLARK MP
Secretary of State for Business, Energy & Industrial Strategy

Withdrawn 22 November 2023