



CONSULTATION RESPONSE

Independent review of the Financial
Reporting Council

August 2018

ASSOCIATION OF INTERNATIONAL ACCOUNTANTS (AIA) RESPONSE TO THE 'INDEPENDENT REVIEW OF THE FINANCIAL REPORTING COUNCIL: CALL FOR EVIDENCE'

INTRODUCTION

The Association of International Accountants (AIA) is responding to 'The Independent Review of the Financial Reporting Council (FRC): Call for evidence,' published on 6 June 2018, on behalf of our members and in the wider public interest.

AIA is a Recognised Qualifying Body (RQB) for qualifying statutory auditors under the Companies Act 2006 and as such is regulated by the Financial Reporting Council (FRC).

AIA is providing these comments to build upon and improve independent regulation of the audit market in the United Kingdom.

The Review gives an opportunity to address concerns held by several stakeholders concerning the FRC's performance and remit and should ensure that the public interest is protected.

EXECUTIVE SUMMARY

The key reforms needed to protect the regulation of audit in the United Kingdom relate to transparency and independence and the FRC must revolutionise its approach to avoid any criticism of 'regulatory capture'.

Any extra powers the FRC receives and any change in FRC structures, accountability or status will only be effective alongside a substantial change in culture. If the FRC is unable to evolve and change its culture, then its primary functions of regulating auditors and actuaries and improving audit quality should be transferred.

The FRC or its equivalent should also seek to review risk in setting out regulatory priorities with a stated aim of reducing the risk of corporate failure.

Names are important: the FRC's name does not inspire confidence that it is sufficiently focussed on the enforcement and regulation of the audit environment and AIA recommends a new independent non-ministerial department approach.

As a public body the FRC must acknowledge its function and responsibility as a regulator and should have a level of accountability provided by a government department or similar reporting function. The Department of Business, Energy and Industrial Strategy (BEIS), or equivalent, should report publicly on how and to what extent the FRC is meeting its obligations. Consideration should be given as to whether statutory powers should be addressed.

The FRC should consider the matter of audit market competition as a secondary objective and the main decision making and review of the audit market should be taken by the Competition and Markets Authority (CMA) in order to maintain the independence of the regulator.

It is recognised that the FRC has made some progress in widening the diversity of its Board, however these improvements must be extended throughout the organisation.

There are some key areas in which the FRC lacks the competence or experience to make decisions relating to specific regulatory functions and more could be done to increase the breadth of knowledge at an executive oversight level.

Transparency is key for mitigating conflicts of interest, but this issue extends beyond simply the Big Four audit firms and the review should consider the regulatory relationship between the firms and the

professional bodies that regulate them, and the FRC as an independent regulator in order to secure independence from the profession and avoid criticism of conflict of interest.

Particularly with reference to the FRC as a public body the Review should also make note of the varying degree to which the Freedom of Information Act applies to the FRC and its functions and consider whether this should be standardised.

Transparency of decision making, especially for Conduct Committee business, is key for ensuring that trust is maintained in regulation. More should be done to ensure that Committees are more accountable for their decisions.

Serious consideration should be given to separating more definitely the standard setting arm and enforcement remit of the FRC.

As a long-term goal, the Review should explore the need for statutory legislation to underpin the independent regulation of the audit environment and consider whether this regulation should be extended beyond audit by ending the voluntary regulation of the accountancy profession and along with it a process of two-tier regulation.

AIA RESPONSE

Q1: What should the FRC's objective(s) be? Is its present mission statement the right one?

The FRC's overall objective should be to promote accurate and transparent reporting in business by providing independent regulation of the audit environment.

Independent regulation of the audit environment should be based primarily on improving audit quality – by guidance and enforcement – and driving up the standard of reporting.

It is the duty of an independent regulator to be fair, proportionate, consistent, honest, trustworthy and to act with integrity. This links directly to the effectiveness of the regulator and the trust that can be placed in it by the public and stakeholders alike.

The overall focus of the FRC's Mission Statement and Values are sound, with some room for improvement, however currently there is no framework and we would argue that the introduction of such a system may be useful to effectively judge and assess the FRC's outcomes.

One area of improvement could be a reframing of the emphasis of the statement from a conciliatory promotion of consensus regarding transparency (promoting and ensuring) to an indication that the FRC is willing to use its enforcement powers (maintain, ensure and enforce).

There is a wider public interest concern present regarding the mission statement which links to the assessment of the FRC's outcomes concerning recent financial events including high profile failures at Carillion, HBOS and BHS.

Q2: Does the FRC's name remain right?

At present the name Financial Reporting Council (FRC) does not convey an official regulatory function, but instead creates the impression of a forum for discussion.

AIA would suggest taking this opportunity to review the name of the FRC to highlight its regulatory role, which could take other regulatory bodies as a guide. For example, the FRC could be renamed to The Office for Financial Reporting and Audit Regulation (OFRAR).

This would indicate to stakeholders and the public that the body was involved in more than Financial Reporting and had a regulatory function.

Any name change could also consider the experience of the transition of the Financial Services Authority (FSA) to Financial Conduct Authority (FCA) or other regulators, which highlighted the importance of conduct and regulatory action.

Further consideration could be given by HM Government to altering the FRC's structure to bring it in line with other independent regulators which are non-ministerial government bodies. An example is The Office of Qualifications and Examinations Regulation (Ofqual), which is a non-ministerial government department regulating qualifications, exams and tests in England.

However, it is accepted that amending the FRC's current name could have implications for both its funding model and constitution in terms of government involvement and financial backing, and this is an avenue that HM Government would have to consider the wider implications of, including any costs relating to changing the FRC's name and whether this would have an impact on brand recognition.

Q3: Are the functions and structure of the FRC still relevant and appropriate, or is there a case for any structural change? Should any of the FRC's functions move to other regulators?

AIA recommends that the focus of the FRC should change to ensure there is greater emphasis on enforcement and regulatory action. This may require some functions of the FRC to change; the overall structure of the FRC should ensure the separation of the enforcement and standard setting functions of the profession.

Transparency, independence and applicability of regulation are key to ensure trust. The oversight of audit is conducted by a relatively small number of individuals at executive level and this means that there could be a perception of that regulation being dependent on the way individuals apply their interpretation to guidance and this could be fluid, meaning different standards are applied by different individuals to different professional bodies.

The timing of the FRC's review also gives opportunity to assess whether there is scope (or appetite) for widening the regulation of the sector to include accountancy on a formal basis by independent legislation. AIA would argue against devolving too much enforcement or regulatory activity to professional bodies as this may affect the independence of the market and enforcement action without proper and extensive supervision.

Q4: What lessons can be learned from other countries' regulatory systems? Which ones?

There may be some examples of best practice from overseas regulatory systems, for example the Irish Auditing and Accounting Supervisory Authority (IAASA) is considered a strongly independent regulator with a clear remit and legislative underpinning.

A conclusion that may be drawn from most jurisdictions facing challenges in the audit environment across the globe would be that issues are magnified by an unfocussed and wide-ranging remit.

The challenges of the post-Brexit audit market in Europe should also be considered when reviewing the regulatory systems operating in the EU-27 alongside UK-only related issues concerning audit and its regulation.

Q5: How effective has the FRC been in influencing wider debates that affect its ability to deliver its objectives – for example, around audit competition, or its legal powers?

The FRC has for the most part been reactive to the wider debate surrounding audit competition, with the majority of public pronouncements being made by members of Select Committees following reviews and high profile public interest issues such as the collapse of Carillion.

Although the FRC has shown an awareness of the need for audit market reform and has discussed this on several occasions, the FRC's remit has resulted in limited movement on this subject and the FRC has not used its position since its last reform in 2012 to push with vigour any recommendations to address audit competition in the UK.

It is only more recently, with high profile collapses such as Carillion, and the ensuing media spotlight, that the FRC has begun to push a more coherent policy line, although this has resulted in a limited effect.

At present the overall responsibility for competition in the market rests with the Competition and Markets Authority (CMA) and AIA would suggest that following the outcome of high profile reviews conducted by the FRC which resulted in minimal enforcement action taken against Big Four audit firms that this responsibility should continue to rest with the CMA.

Q6: Is the current balance between cross-cutting reviews and firm-specific investigations most effective?

AIA's experience of the FRC is based on its requirements as an RQB and as such will make no specific comments regarding reviews and investigations of audit firms.

Both cross-cutting reviews and firm-specific investigations have their merit in undertaking a thorough or wholistic review and thematic reviews are useful for drawing board sector-wide conclusions that provide examples of best practice.

It is understandable that the FRC should pursue varied approaches when working to investigate and improve the standard of audit quality.

Q7: What are the FRC's strengths and weaknesses?

The FRC's responses to recent high-profile audits have resulted in a number of high profile public figures calling for the FRC to be abolished or noting that its actions have been 'weak' or 'timid'. The weakness, or 'timidity', of the FRC has not – and will not – be improved until the FRC can be seen to take enforcement action against those firms responsible.

The FRC's remit is broad and there is a considerable weakness in its outlook based upon the resources it dedicates to audit quality in comparison other areas such as Corporate Governance – including excessive corporate pay.

Key criticisms and weaknesses charged to the FRC concern the independence of the Board and Committees and conflicts of interest, however the same levels of awareness should be given to executive staffing.

Nevertheless, the FRC has shown strength in grasping the importance of diversity and gender equality in corporate governance: the recent appointments of high profile women, bringing with them wider experience, are a welcome step in the right direction toward changing the culture of the FRC in a male-dominated environment. These recent appointments show that when necessary the FRC can lead the debate, however, this should be considered as the beginning of a process and the FRC still has considerable work to undertake, including how it cascades this culture change to those employees working below board level.

It is a common thread through regulation of the sector that much of the FRC's powers and controls are in existence by ad-hoc agreements with professional bodies and have evolved over time with neither formal agreement or structure. For example, the disciplinary scheme for the accountancy profession exists, but is controlled not by the FRC, but by the professional bodies it is meant to regulate. This is a significant weakness and results in regulation of the sector which is ultimately split into distinct layers and levels without statutory underpinning.

Professional bodies are awarding bodies with significant institutional experience in setting and conducting examinations and qualifications that are fit for purpose and accepted by employers. AIA accepts the FRC's role in regulating the audit qualification, however there are a number of key areas in which it could be improved.

Using AIA's experience as a RQB it is imperative to cite significant weaknesses in the regulation of the audit profession which are built upon a lack of experience and competence in specific areas under regulation. For example, the regulation of the audit qualification – the foundation of the FRC's work in audit regulation – is managed by individuals, below the level of the FRC Board or Conduct Committee, who have limited experience of setting or controlling university-level examinations.

Regulation must be proportionate and fair: whereas the FRC Board and Committees are required to engage individuals both for their independence and lack of audit experience the oversight of the audit qualification is not made on a wide platform of both experienced audit practitioners and those with qualification experience but only by those unused to setting examinations.

Q8: The recent joint report on Carillion from the Business, Energy and Industrial Strategy and the Work and Pensions Select Committees considered the FRC to be characterised by “febleness and timidity”

and recommended that a change of culture and outlook is needed. Do you agree? If so, please cite relevant evidence which informs your view.

AIA would agree with the sentiment expressed by a number of key public figures as the outcome of reviews conducted by the FRC came too late and had a major public interest impact.

In future, with consideration to the FRC's future structure and reform, the regulatory body must be mindful of both the impact of action it takes and of its inaction.

If no lessons are learnt from this process and without a change in culture and approach to investigations in the audit environment it is not unforeseeable that a similar series of events could occur with similar public interest concerns.

Q9: Are there changes respondents would like to see to achieve the vision set out in the Review's terms of reference?

The focus for change at the FRC must be targeted at independence, transparency and a framework for regulation that is both fair, proportionate and trusted – by the public, professional bodies, investors and government alike.

Q10: Are arrangements for financial reporting, audit and corporate governance the critical elements for effective delivery of FRC's mission, or are elements missing?

The FRC's mission is supported by arrangements for financial reporting, audit and corporate governance and AIA suggests no further substantive elements missing.

Q11: How effective is the FRC at driving quality improvements in audit? What further improvements would respondents like to see?

The FRC has in recent months adjusted its public pronouncements concerning audit quality and there has been a welcome introduction of more critical announcements concerning specific audit firms where notice of poor quality audits has been given.

The FRC has produced useful guidance and public pronouncements on audit including "Promoting Audit Quality" and thematic reviews on Audit Quality, alongside more general publications of Developments in Audit which are effective ways to drive improvements in audit quality.

However, AIA would suggest that although this transparent publication of audit quality reviews and thematic guidance has focussed attention on audit quality there is an argument to be made that this has occurred too late and the FRC has woken up to the public interest concern of failing audits only when criticised.

Q12: Where quality does fall short, do the FRC's interventions have sufficient impact and deterrent effect?

AIA welcomes recent sanctions made against both firms and individuals alike as part of enhancements made to the enforcement regime and considers the deterrent aspect of these increasing fines to be acceptable.

The system could go further, however, and accountability of those caught by the FRC's enforcement procedures should be reviewed to ensure that responsibility for corporate failure or audit quality issues is adequately apportioned.

Q13: What force is there in the concern of some that the FRC may be too close to the “big 4”? Or that the FRC is too concerned with the risk of failure of one of the “big 4”?

There are well documented concerns regarding the closeness of the FRC to those it regulates, backed up by virtue of the fact that a number of its senior employees or Board/Committee members are made up of former employees of the Big Four. Although it is not practical or prudent to consider that the FRC should not consider employment of any individual with a background in a regulated firm (or professional body) there must be clear independence and conflict of interest policies to allow transparency of any decision making.

A further aspect of independence and conflict of interest that should be considered during the review concerning ‘closeness’ to regulation would be that of professional bodies who regulate the Big Four and their interaction with the FRC.

As set out in the answer to Q7, AIA welcomes the appointment of new board members with a focus on areas outside of the regulated sector or accountancy and with experience of ethical and independent Board direction.

As stated on several occasions, reform of the FRC will only be effective if backed up by reform of culture and process in the organisation as a whole.

Q14: Are investigations of audit work effective, transparent, satisfactorily concluded and unfettered?

As a Recognised Qualifying Body (RQB) AIA has limited direct experience of the Audit Inspection Unit and therefore will not comment on this question except to highlight that there are several public interest concern cases which have not been deemed to be satisfactorily concluded, including those of Carillion, BHS and HBOS.

Q15: Could a different regulatory strategy or tactics result in greater avoidance of harm?

Different regulatory strategies or tactics may result in greater avoidance of harm if they were factored in such a way as to avoid that harm. The importance of public announcements regarding public interest concerns, especially those employing a large number of individuals with a significant footprint in the UK economy, must also be considered.

Q16: Could or should the FRC’s work promote competition and a well-functioning audit market? Does the FRC’s work undermine competition or a well-functioning audit market in any way?

The audit threshold places a limit on potential business in the market and restricts the competition of audit firms, decreasing the number of trained auditors required in the market which results in a smaller number of larger firms.

The FRC should actively consider matters of competition in terms of the audit market but instead should focus primarily on standard setting and enforcement. However, it should be aware that pronouncements it makes have an effect on the market, other regulators and public policy. The FRC’s independent enforcement of the audit market should result in a well-functioning audit market in terms of applicability of standards and professional practice.

It should be left to existing regulators, including the Competition and Markets Authority, with insight from the FRC, to police the current competition in the audit market.

The FRC could promote competition in the market, however any regulatory action to actively affect competition should be taken elsewhere.

Q17: Can questions regarding the effectiveness of the FRC be separated from the wider question on whether change is needed to audit arrangements to take account of shifting expectations?

Questions regarding the effectiveness of the FRC can be separated from the wider question of whether change is needed to audit arrangements in the UK, however it would be more useful to consider these questions in the round.

Q18: Has the FRC been effective in influencing the development of accounting standards internationally as well as accountable and effective in setting UK GAAP?

Although AIA's involvement in the standard setting regime operated through the FRC is limited, there is evidence of engagement pursued by the FRC with international bodies such as the International Accounting Standards Board (IASB) and public responses made to consultation documents and review processes.

Q19: How else could the FRC improve the quality of financial reporting with a view to ensuring investor confidence?

The quality of financial reporting could be improved by increasing detail which would support investor confidence and raise the knowledge base of a company.

Whilst it is necessary to increase the absolute detail of a company's financial situation for investors there is a wider point regarding qualitative reporting of directors to give more flavour to a company's position, although this would require guidance to ensure accuracy.

Q20: Are there wider issues of financial and other reporting on which a stronger regulatory role would be desirable to better meet the information needs of investors and other stakeholders?

Issues of applicability and transparency are key issues on which it would be desirable for auditors to report to investors and shareholders.

Q21: Is the current combination of statutory and voluntary methods of oversight for professional bodies effective, and do they remain fit for the future?

In the current regulatory climate of transparency and independence it is unsustainable to maintain a system of part-voluntary oversight.

Although professional bodies provide information voluntarily to the FRC, such as through Key Facts and Trends, this is part of the regulatory process which maintains the recognition set out in the Companies Act for Recognised Supervisory and Qualifying Bodies.

Discrepancies between statutory and voluntary oversight may cause confusion to the public in consideration of varying levels of oversight, including the Disciplinary Scheme, which creates a two-tier system of regulation and oversight. Regulation should be extended to encompass fully all recognised bodies and an open and transparent system of application engendered which provides appropriate assurance of the quality and standard of those bodies applying. The Review should consider as part of the oversight of the profession whether there is a necessity to extend regulation of the sector to the accountancy sector and review the appetite amongst HM Government, the profession and the wider public for regulation based on a statutory framework.

AIA would recommend a review of how the oversight process can be improved by transparency and an independent application of a written framework.

Q22: In relation to the UK Corporate Governance Code, are there issues relevant to the Review's terms of reference that respondents believe the Review should consider?

AIA has no comment to make regarding the UK Corporate Governance Code within the terms of this review.

Q23: How effective has the Stewardship Code been in driving more and higher quality engagement by institutional investors? If not, why? How might quality of engagement be further strengthened?

AIA has no comment to make regarding the Stewardship Code within the terms of this review.

Q24: Do respondents view the FRC as reluctant to undertake investigations or enforcement, or able to do so at speed?

There is a public perception that the FRC is reluctant to undertake investigations or meaningful enforcement, particularly at speed, as the response to the HBOS shows.

It should be said, however, that the public perception of enforcement cases is processed through the public discourse surrounding each specific review and there are reasons why each review may be time consuming in terms of collection and review of evidence or where a time-consuming investigation is demanded due to the nature of the event or public interest concern.

Q25: How could the FRC better ensure it is able to take swift, effective and appropriate enforcement action? What practical or legal changes would be needed to achieve this?

The review team will be able to assess in certain cases the reasons for the length of time for a review to report, however it remains the case that the independence of the investigation and enforcement processes within the FRC should ensure that investigations and reviews are carried out at their most efficient timescale within the confines of the review framework.

Q26: Have the arrangements put in place following the 2005 Morris Review stood the test of time, or is there a need for change? Should actuarial regulation be a focus for the Review's work?

AIA has no comment to make regarding actuarial work within the terms of this review.

Q27: Is there more the FRC could or should do to help reduce the risk of major corporate failure?

The FRC should learn lessons from other UK regulators who have undergone significant reform or weathered significant events within the financial services sector. Examples of best practice from the FCA concerning enforcement and conduct activity and the application of a risk-based approach would be positive steps towards further engagement to reduce the risk of major corporate failure.

Although it is impossible to prevent corporate failure, and it should be recognised that the FRC has limited control over certain market factors, the FRC could work to reduce the risk of failure.

Q28: Is the FRC quick and effective enough to act on warning signs arising from its work on accounts and financial reporting, or on evidence of concerns over poor corporate governance?

AIA has no further comment to make on the FRC's review work but would support a view that it should be reasonable to expect the FRC to investigate warnings when reviewing an audit and the work of auditors in general.

Q29: Is there a case for a more “prudential approach”? If so, how could this operate in practice, and to which category of company might such an approach apply?

Any requirement for the FRC to engage in a more prudential approach would have to be limited to a category of company or the overall burden on the regulator would be unsustainable without serious consideration to its funding, for example by addressing only listed companies.

Q30: Introduction of the viability statement was an important development, but could it be made more effective?

The introduction of the viability statement was an important step forward in terms of transparency in corporate reporting, however care must be taken to ensure that companies do not reduce the usefulness of the statement by providing information simply to meet a requirement that subsequently becomes meaningless. The FRC could more effectively measure this process by acting against companies that adopt this approach.

Q31: Are there gaps in the FRC's powers? Would its effectiveness be improved with further (or different) powers?

The FRC's powers to investigate corporate reporting could benefit from review to provide significant oversight of the corporate governance regime. Without increasing its specific powers relating to company annual reports it is difficult for the FRC to continue to meet the demands of its remit regarding corporate governance when met with new requirements and regulation.

Q32: Are the FRC's powers coherent in relation to those of other regulators?

The review should consider in more depth the independence of the FRC compared with other examples of best practice within the regulatory sector and as outlined within this consultation response AIA has provided examples of areas in which the FRC's powers either correspond to, or whose alignment could be shifted to, other regulators.

Q33: Taking account of Sir Christopher Clarke's review of sanctions, and subsequent changes, does the sanctions regime now have the right deterrent effect? Does the FRC make best use of the sanctions at its disposal?

AIA has discussed earlier in this consultation document in response to the sanctions and enforcement regime whether there is sufficient deterrent effect and would suggest that it should be reviewed whether the FRC makes best use of the sanctions at its disposal across several reviews of public interest concerns.

Q34: Should the Government legislate to put the FRC on a more conventional consolidated statutory footing?

Although the audit qualification is to some extent legislated for within the Companies Act 2006 it is arguable that the FRC would benefit from additional statutory framing with legislation setting out its

remit, powers and functions. This may be difficult in the short term in consideration of parliamentary procedure or time available, however in the long term it would provide some much-needed transparency and independence for regulation in general.

Although by its nature the implementation of a statutory regime is important, any such legislation will result in no change without an overhaul of the FRC's culture.

The Review presents a golden opportunity to overhaul the regulatory regime in the United Kingdom and create a fair and transparent system of regulation and oversight which increases stakeholder and investor confidence and protects against the risk of corporate failure by working to increase audit quality and accountability.

Q35: What is the optimal structure for the relationship between the FRC and the Government, best balancing proper accountability with enabling the FRC's effectiveness?

A statutory underpinning would provide the best and most transparent structure for the FRC to fulfil its remit and Mission Statement and enable it to act in the public interest along similar lines as other regulatory bodies.

Q36: In terms of the FRC's broader accountability, is there a case for further transparency in its actions or functions?

Further transparency is crucial in underpinning public trust in the regulation of financial services and driving up audit quality.

Consideration of the extent to which the Freedom of Information Act applies to sections of the FRC will provide an indication of the extent to which transparency extends throughout the FRC's structure.

Q37: How effective is the current leadership and Board of the FRC? Please cite relevant evidence which informs your view.

AIA would use this opportunity to highlight the standard expected of good regulation and corporate governance.

Good regulation requires at least two elements: a clear and achievable objective and a legitimate and comprehensive conversation between the regulator, the regulated community and the intended beneficiaries of the regulation.

Good regulation is fundamentally underpinned by principles of transparency, necessity, proportionality, effectiveness and flexibility.

The regulator should be flexible, but the regulated community should be in no doubt as to the enforcement power available should there be necessity to implement an investigation.

Q38: Is the Board's composition appropriate? Is it the right size? Does it have appropriate membership?

AIA has discussed earlier the relative strengths and weaknesses of the FRC, including the composition of its Board and the necessity to protect against both conflicts of interest and to get the right mix of individuals making up the decision-making authority of the regulator.

Whilst the Board is the main public face of the FRC, the Committees sitting under the Board must have an appropriately transparent selection process to ensure their independence and good governance.

Q39: Is the balance of decision-making between the Board, its Committees and the Executive described in paragraphs 34-26 above right, given relevant legal constraints?

Given legal constraints it would appear that the decision-making between the Board, its Committees and the Executive is appropriate.

However, the transparency of decision making could be improved, and AIA would recommend more information being provided, including more detailed information on regulatory decisions made by the Conduct Committee.

Q40: Is the Board's structure appropriate, including given the FRC's roles on standard setting, assessment and enforcement? Does the Board's accountability appropriately reflect its role and functions? Are its decisions appropriately transparent, bearing in mind the need to balance public interest and confidentiality?

The Call for Evidence, and FRC structure, suggest that the FRC Board was not involved in many of the most high-profile and contentious decisions for which the FRC is generally held publicly responsible.

This does not seem in line with standards of corporate governance that the FRC is ultimately responsible, and it could be imagined that this would be a significant area of concerns for a public interest entity should its systems and company structure be set up in this manner.

However, it should remain paramount to maintain the independence of the conduct arm of the FRC as opposed to its standard setting remit, which could be another area at which the review could direct its attention.

On a wider point, the accountability and transparency of the Conduct Committee is as important as that of the FRC Board in considering the appropriate structure of the FRC as enforcement decisions are taken at this level.

Q41: How should the Executive's effectiveness be assessed and ensured?

The effectiveness of the Executive, and the FRC as a whole, needs to be assessed and ensured in a transparent and independent manner, and a guide could be taken based on current independent regulators.

BEIS should publicly report on the effectiveness of the FRC, ensuring consideration of the effectiveness of the FRC's position and being careful not to undermine its enforcement power, in order to provide comfort to stakeholders that the regulation is being applied in an appropriate way.

Q42: Who should fund the FRC, and how? What are the impacts of current funding arrangements, including of having a partially voluntary funded regime?

HM Government should consider the necessity for providing public funding to ensure the effective regulation of the audit environment in the UK, particularly in light of recent high-profile investigations and corporate failures.

Effective regulation cannot be part-funded on a voluntary basis as this does not provide a stable platform on which to plan and provides for two-tier regulation.

Q43: What skills are needed for the FRC to be most effective? Does the FRC have the people, skills and resources it needs, of the quality it needs?

Outside of Board level responsibility, the FRC needs a broad range of skills to ensure the appropriate regulation of the profession and to protect the public interest. These skills range from investigatory (both audit inspection and monitoring of regulated professional bodies) to auditing and corporate governance skills.

A key component of the FRC's capability is the staff resource it uses to discharge its duties. In many cases there is a lack of competence at a level at which investigations and monitoring visits are conducted. AIA cannot speak in terms of the Audit Inspection Unit function of the FRC's mandate, however the appropriate regulation of educational standards requires both experience in setting and teaching university-level qualifications and experience of undertaking practical training.

It is entirely understandable that any regulator should seek to make use of a broad range of experiences and capabilities within its staff to ensure best practice is being carried out in its monitoring and enforcement of regulated entities, however in the case of the FRC the monitoring of Recognised Qualifying Bodies (RQBs) is undertaken by individuals with no practical qualification or educational experience, as outlined previously in this consultation response.

Q44: Are there conflicts of interest in the FRC's structure, processes, or culture? Are there deficiencies in the FRC's approach to managing conflicts of interests?

The question of real or perceived conflicts of interest within the FRC have been investigated recently in a number of articles and investigatory reports and in order to address concerns of impartiality and independence the FRC must address concerns over conflicts of interest.

Conflicts of interest damage not only individuals in question but also the reputation of the FRC as an effective and independent regulator and increasing the transparency of senior appointments could help to mitigate some aspects of these concerns.

Q45: Are there any other issues relevant to the terms of reference that respondents would like to raise?

AIA has no additional comments to make within the terms of the review.

ABOUT AIA

The Association of International Accountants (AIA) was founded in the UK in 1928 as a professional accountancy body and promotes the concept of 'international accounting' to create a global network of accountants.

AIA is recognised by the UK government as a recognised qualifying body for statutory auditors under the Companies Act 2006, across the European Union under the mutual recognition of professional qualifications directive and as a prescribed body under the Companies (Auditing and Accounting) Act 2014 in the Republic of Ireland. AIA also has supervisory status for its members in the UK under the Money Laundering Regulations 2017. AIA is a Commonwealth Accredited Organisation.

AIA believes in creating a global accountancy profession and supports the International Federation of Accountants (IFAC) in their vision of a global accountancy profession recognised as a valued leader in the development of strong and sustainable organisations, financial markets and economies. AIA has adopted IFAC's Code of Ethics for professional accountants and also incorporates IFAC's International Education Standards (IES) into its qualifications and policies.

AIA has members working throughout the whole spectrum of the accountancy profession. Many of our members are at the top of the accountancy industry, from senior management to director level. Conversely, significant numbers of our members work in small and medium sized businesses (SMEs) and we strive to champion the importance of SMEs and their needs.

FURTHER INFORMATION

The above replies represent our comments upon this consultation document. We hope that our comments will be helpful and seen as constructive. AIA will be pleased to learn of feedback, and to assist further in this discussion process if requested.

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