



Department for  
Business, Energy  
& Industrial Strategy

# INDEPENDENT REVIEW OF THE FINANCIAL REPORTING COUNCIL

Initial consultation on the recommendations

Closing date: 11 June 2019



**OGL**

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# Foreword



In April 2018, I asked Sir John Kingman to undertake a root and branch review of the Financial Reporting Council (FRC). I took this action because I want the UK to continue to benefit from high quality audit, governance and financial reporting standards, which is a vital part of our market economy. This requires a world-class regulator performing at the top of its game.

On the 18 December 2018, Sir John published his Independent Review of the Financial Reporting Council. The Review recommends that the FRC be replaced with an independent statutory regulator, to be called the Audit, Reporting and Governance Authority, accountable to Parliament, with a new mandate, new clarity of mission,

new leadership and new powers. The Review sets out 83 recommendations on the detail of this, and on a number of related matters.

I am most grateful to Sir John Kingman and his colleagues for their excellent work on the Review. On behalf of the Government I am pleased to endorse and accept the case presented for this major set of reforms of the regulation of company audit, accounting and reporting. Shareholders, investors and the wider public must have every confidence in company reports and audited accounts.

The UK has a world leading audit and corporate reporting industry and regulatory regime, and audit and accountancy services are an important export for the UK that we can be rightly proud of. It is important that the UK has a strong and effective regulator of audit and corporate reporting to support and oversee this valuable sector. The UK has a first class business environment making us one of the most attractive places to invest, start and grow a business but it is right that we continuously keep our corporate governance regime under review to maintain a high competitive standard. The Government will take forward the recommendations set out in the review to replace the FRC with a new independent statutory regulator with stronger powers. This body will build on our status as a great place to do business and form an important part of the Government's continued efforts to strengthen trust and public confidence in business and the regulators that govern them.

Taking forward the Review's recommendations is part of the Government's Industrial Strategy aim of creating a business environment that ensures our regulators are fit for the future and our markets are working for consumers. The Government's implementation will drive productivity and make the UK a great place to invest, employ people and do business. Good governance, good work, and good investment are long-term themes that underpin the economics of the Industrial Strategy. Our audit regime needs to achieve robust oversight based on a proportionate, fit for purpose governance regime which supports and expands our world leadership in this field.

The Government welcomes and shares the Review's vision for a new regulator with a new mandate, new leadership and stronger statutory powers. The Government intends to move swiftly to implement these reforms. In the interim period until the new regulator is in place, we will be working with the FRC to take forward 48 of the Review's recommendations. I welcome the FRC acting on a voluntary basis ahead of legislation.

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Legislating to create a new regulator will ensure that the Review's recommendations are realised fully. The Government is committed to developing proposals to implement these recommendations as quickly as possible, and to introduce the legislation as soon as Parliamentary time allows.

The Government would welcome the views of interested parties on the detail of the Review's recommendations now, and will consult further on the detailed proposals for the new regulator once we have developed them. Where other ongoing work is of relevance to Sir John's recommendations, we will of course want to look at those issues in the round.

The Government will also now be taking steps to appoint new leadership at the Financial Reporting Council, which will transition into the Audit, Reporting and Governance Authority once established by legislation.

These reforms will ensure that we can have full confidence in the excellence of our regime for corporate reporting, governance and audit, founded on the new Audit, Reporting and Governance Authority.

A handwritten signature in black ink that reads "Greg Clark". The signature is written in a cursive style with a large, looped 'G' and 'C'.

The Rt Hon Greg Clark MP

Secretary of State, Business, Energy & Industrial Strategy

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# General information

## Why we are consulting

This consultation seeks views on recommendations made by the Independent Review of the Financial Reporting Council to create a new regulator responsible for audit, corporate reporting and corporate governance.

## Consultation details

**Issued:** 11 March 2019

**Respond by:** 11 June 2019

**Enquiries to:**

Audit Reform and Regulation Team

Department for Business, Energy & Industrial Strategy,

1st Floor, Victoria 1,

1 Victoria Street,

London,

SW1H 0ET

Email: [FRCConsultation@beis.gov.uk](mailto:FRCConsultation@beis.gov.uk)

**Consultation reference:** Independent Review of the FRC – Initial consultation on the recommendations

**Audiences:** The Government would welcome views of users of accounts, investors, asset owners, others who rely on audited accounts, business stakeholders, regulated firms, companies, and other regulatory bodies including professional associations.

**Territorial extent:**

Recommendations relating to Local Audit, and to matters relating to the National Audit Office apply to England only.

The territorial extent of other matters in this document is the whole of the UK. The Companies Act applies UK wide, as do the statutory functions of the FRC.

Company law is a reserved matter in relation to Scotland and Wales. Previously, the Northern Ireland administration has agreed that, while the operation and regulation of audit and corporate reporting matters remains a transferred matter within the legislative competence of the Northern Ireland Assembly, amendments to the Companies Act 2006 and legislation

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regulating audit and corporate reporting matters should be made in the same terms for the whole of the United Kingdom.

## How to respond

**Respond online at:** <https://beisgovuk.citizenspace.com/business-frameworks/financialreportingcouncilconsultation>

**Email to:** [FRCConsultation@beis.gov.uk](mailto:FRCConsultation@beis.gov.uk)

**Write to:**

Audit Reform and Regulation Team

Department for Business, Energy and Industrial Strategy

1st Floor, Victoria 1

1 Victoria Street

London

SW1H 0ET

A response form is available on the GOV.UK consultation page:

<https://www.gov.uk/government/consultations/independent-review-of-the-financial-reporting-council-consultation-on-recommendations>

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

## Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable UK and EU data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

## Quality assurance

This consultation has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this consultation has been conducted, please email: [beis.bru@beis.gov.uk](mailto:beis.bru@beis.gov.uk).

## Introduction

On the 18 December 2018 Sir John Kingman published his Independent Review of the Financial Reporting Council (FRC). The Review makes 83 recommendations to reform and improve oversight of audit and corporate reporting. The Government is grateful to Sir John Kingman and his team for this comprehensive review in to the Financial Reporting Council and regulation in the audit sector. The recommendations are well considered, far reaching and transformational.

For the most part the conclusions and recommendations of the Review speak for themselves, and do not require further examination in this paper or in subsequent consultation. In many cases the FRC will move without delay to adopt the improved practices recommended. For example: strengthening dialogue with the investment community (Recommendation 43); and strengthening its recruitment and procurement practices (Recommendations 11, 58). In this document we highlight all such recommendations.

A second category of recommendations are immediately persuasive but there are choices to be made in how they should be implemented. These are identified in this document for discussion and consultation. For example, on the regulator's overarching objective (Recommendation 4), respondents may have views about whether the matters are rightly captured and reflected; and until such time as Parliamentary time allows that to be put on a statutory footing, the FRC will voluntarily follow the approach agreed.

There is a third category of recommendations where there are weighty, wider issues and inter-connections to be considered. For example, we need to make sure the competition-related findings from the Review (Recommendations 71, 72, and 73) are considered alongside the findings from the Competition and Markets Authority's study on the statutory audit market, which is expected to conclude later in 2019. In taking forward recommendations that relate to audit standards (such as Recommendation 52 on viability statements), we will also need to draw on the work that Sir Donald Brydon is now leading on audit quality and effectiveness.

The Government's proposed approach, as set out in the table below is:

- to proceed at pace with all the reforms that can immediately be delivered, so that the benefits can be obtained without delay;
- to consult either through this document or very shortly on reforms that can be delivered in advance of legislation, but where there are significant policy choices to make in deciding how to implement;
- to highlight proposals that will require primary legislation, where we are seeking views now but where we will consult later on detailed proposals.

<b>FRC and BEIS will implement as soon as possible</b>	<b>Can be implemented once considered, in advance of legislation</b>	<b>Primary Legislation required</b>
Chapter 1		
Recommendations 2, 7, 8, 9, 10, 12 and 13	Recommendations 4, 5, 6, 11 and 14	Recommendations 1 and 3
Chapter 2		
Recommendation 17, 21, 22, 23, 24, 29, 31, 32, 33, 39, 41 and 43	Recommendations 15, 16, 27, 30 and 42	Recommendations 18, 19, 20, 25, 26, 28, 34, 35, 36, 37, 38 and 40
Chapter 3		
Recommendations 44 and 52		Recommendations 45 to 51 and 53
Chapter 4		
Recommendations 54 to 63		
Chapter 5		
Recommendations 67, 68 and 69	Recommendations 64, 65 and 66	Recommendation 70
Chapter 6		
		Recommendations 71 to 82
Chapter 7		
Recommendation 83		

Alongside his Independent Review, the Secretary of State asked Sir John to consider whether there was a case for change in the appointment of a company’s auditors and how their fees are set. Sir John’s response sets out a thorough exposition, highlighting concern that the

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current framework does not support auditors' need to act with scepticism and challenge in the interests of shareholders; but it stops short of proposing major change.

The Government believes that Sir John's proposed approach to permit the new regulator to act in a focused set of circumstances bears serious consideration; and agrees that any change of approach must not affect the rights of shareholders to vote on the appointment of the auditor. The Government will consult on Sir John's detailed proposals.

# Chapter 1 – FRC structure and purpose

The Review sets out a compelling case for establishing a new, stronger, statutory regulator to oversee accounting and audit. It sets out how the current Financial Reporting Council (FRC) was created and how functions have been added over the years. The Government accepts that this has resulted in a regulator with a complex mix of statutory and voluntary functions and powers. The Government accepts the recommendation that this is no longer appropriate and a new statutory regulator with clear objectives, duties and functions should replace the FRC. The new regulator will be called the Audit, Reporting and Governance Authority.

## Establishing a new regulator

**Recommendation 1:** *The Review recommends that the FRC should be replaced as soon as possible with a new independent regulator with clear statutory powers and objectives.*

**Recommendation 2:** *The Review recommends that the new regulator’s statutory powers, purpose and objectives should be complemented – like the FCA’s [Financial Conduct Authority]– by a remit letter from the Government at least once during the lifetime of each Parliament setting out those aspects of economic policy that the regulator should have regard to when advancing its objectives and discharging its duties. The regulator should respond publicly to this letter.*

**Recommendation 3:** *The Review recommends that the new regulator should be named the Audit, Reporting and Governance Authority.*

## Response

The Government welcomes all the Review’s recommendations to establish a new enhanced regulator called the Audit, Reporting and Governance Authority. Taking these recommendations forward will require primary legislation, which the Government will introduce as soon as Parliamentary time allows. In the meantime, the FRC has voluntarily agreed to be bound by a remit letter from the Government, which has been issued, as described in Recommendation 2. This process will be underpinned by legislation in the creation of the new body.

## Objectives, duties and functions of the new regulator

**Recommendation 4:** *The Review proposes that the new regulator should have the following strategic objective:*

*“To protect the interests of users of financial information and the wider public interest by setting high standards of statutory audit, corporate reporting and corporate governance, and by holding to account the companies and professional advisers responsible for meeting those standards.”*

**Recommendation 5:** *The full set of duties that the Review proposes be placed on the new regulator are below, requiring that it should act in a way which:*

- *Is forward-looking, seeking to anticipate and where possible act on emerging corporate governance, reporting or audit risks, both in the short and the longer term;*
- *Promotes competition in the market for statutory audit services;*
- *Advances innovation and quality improvements;*
- *Promotes brevity, comprehensibility and usefulness in corporate reporting;*
- *Is proportionate, having regard to the size and resources of those being regulated and balancing the costs and benefits of regulatory action;*
- *Is collaborative, working closely with other regulators both in the UK and internationally; and*
- *Prioritises regulatory activity on the basis of risk, having regard to the Regulators' Code.*

**Recommendation 6:** *The Review recommends that the new regulator's duties will guide the new regulator in carrying out its core functions on audit and corporate reporting. The Review proposes that its functions should also include:*

- *To set and apply high corporate governance, reporting and audit standards;*
- *To regulate and be responsible for the registration of the audit profession;*
- *To maintain and promote the UK Corporate Governance Code and the UK Stewardship Code, reporting annually on compliance with the Codes;*
- *To maintain wide and deep relationships with investors and other users of financial information;*
- *To monitor and report on developments in the audit market, including trends in audit pricing, the extent of any cross-subsidy from non-audit work and the implications for the quality of audit; and*
- *To appoint inspectors to investigate a company's affairs where there are public interest concerns about any matter that falls within the Authority's statutory competence.*

## Response

The Government welcomes the proposed objectives, duties and functions set out in recommendations 4, 5 & 6. Primary legislation will be needed to give these objectives, duties and functions to the new Authority. The FRC has agreed that it will in the interim adopt the new objective, duties and functions as quickly as possible. However, before these are adopted, we would welcome your views on the following questions:

Q1. What comments do you have on the proposed objective set out in Recommendation 4?

Q2. What comments do you have on the duties and functions set out in Recommendations 5 & 6?

## Board of new regulator

**Recommendation 7:** *The new regulator will require a new board with significant new powers and responsibilities in a challenging environment. It will need to demonstrate strong leadership to effect the major shift in tone and culture to rebuild the respect of those it regulates and other stakeholders. There should be some, but only limited, continuity from the existing FRC board.*

**Recommendation 8:** *The Review recommends that the new regulator’s board should be significantly smaller than the current one.*

**Recommendation 9:** *The regulator’s board should comprise a mix of the skills, experience and knowledge needed to ensure strategic direction and effective, constructive challenge to the executive. It should not seek to be “representative” of stakeholder interests. In line with provisions in the UK Corporate Governance Code, appointments should be diverse, based on merit and objective criteria.*

**Recommendation 10:** *The Review recommends that all appointments to the regulator’s board, including the CEO [chief executive officer], should be public appointments approved by the Secretary of State for Business, Energy and Industrial Strategy.*

## Response

The FRC will take forward recommendations 7, 8, 9 and 10, as soon as possible. Formally establishing the new Authority’s board will require primary legislation, which will be brought forward as soon as Parliamentary time allows. In the meantime we believe we should not wait to put in place what will become the board of the new regulator, and accordingly that we should make changes to the present FRC board in line with the Review’s recommendations. As a first step we will move now to appoint the chair-elect and deputy chair-elect of the new regulator, who in the meantime will be chair and deputy chair of the FRC. With their input we will then similarly appoint the new chief executive officer (CEO) and, in due course, other non-executive appointments. The FRC Board has agreed to amend the FRC’s articles of association in the interim to specify that all members of the board and the CEO will be appointed by the Secretary of State.

## Board appointments, structures and role

**Recommendation 11:** *There should be a consistent approach to the appointments process and all board, committee and senior posts should be openly advertised with headhunters used.*

**Recommendation 12:** *The Review recommends that the posts of chair and CEO should be subject to confirmation hearings with the BEIS Select Committee, if the committee wishes.*

**Recommendation 13:** *The Review recommends that the Government, working with the chair of the new board, should review the existing FRC committee and panel structure with a view to achieving a significant simplification of the architecture in line with the principles set out in the Review. Thereafter, there should be a rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors.*

**Recommendation 14:** *The Review recommends that the board of the new regulator should exercise significantly stronger ownership and oversight of the investigation and enforcement*

*functions. The regulator should ensure that its internal rules and procedures enable the board to:*

- *Take decisions itself on whether to launch audit investigations in cases it regards as of particular significance or public interest. The Review does not anticipate the board taking decisions in many such cases, but it should maintain an ability to do so;*
- *Require regular reports from the Conduct Committee and from the director of enforcement on progress being made with investigations and any subsequent enforcement decisions; and*
- *Question the director of enforcement at any point where it considers that a particular decision or investigation is taking too long.*

## Response

The Government agrees with the need for a consistent and open approach to Board appointments and senior roles within the FRC and the new Authority (recommendation 11). The Government also welcomes the recommendation to ensure appropriate Parliamentary scrutiny of the regulator's Chair and CEO. We will work with the Cabinet Office to establish the right processes, taking account of guidance published in January about the scrutiny of public appointments; and noting that Select Committees are, of course, able to call whomever they wish to appear before them.

The Department for Business, Energy and Industrial Strategy (BEIS) and the FRC will review the current board structure to identify ways to simplify it. Some simplifications may require legislative change as certain functions have been delegated directly to FRC committees.

The Government also welcomes the proposals for the regulator's board to take a more significant role in overseeing and launching audit investigations. The Review highlights that some respondents to the review raised concerns about this to create the potential for conflict with the regulator's standard setting function. The Review acknowledges these concerns but highlights that other regulators are also in this sort of position. The Government is interested in views on how other regulators currently manage any potential conflict between setting the standards and enforcing those standards.

Q3. How do other regulators mitigate the potential for conflict between their standard setting roles and enforcement roles as set out in Recommendation 14?

Q4. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?

## Chapter 2 – FRC: Effectiveness of core functions

The Review sets out recommendations to improve the effectiveness of each of the Financial Reporting Council's (FRC) core functions: audit regulation; audit quality; corporate reporting; enforcement; accountancy oversight; and stewardship. Each of these functions has a different legal underpinning and the Review sets out how each function can be strengthened and improved. The Government welcomes the recommendations to strengthen the effectiveness of the regulator in delivering these functions, including by providing stronger powers.

### Audit regulation

**Recommendation 15:** *The Review recommends that the approval and registration of audit firms conducting PIE [Public Interest Entity] audits should be reclaimed from the RSBs [Recognised Supervisory Bodies]. The Government should work with the regulator to develop and consult on the detail of how this regime should operate.*

**Recommendation 16:** *The Review recommends the new regime for the approval and registration of audit firms conducting PIE audits should incorporate a range of sanctions including some that are less severe than the 'nuclear option' of audit firm deregistration.*

**Recommendation 19:** *The Review recommends that AFMA [Audit Firm Monitoring Approach] should not be carried out on a voluntary basis, but instead the regulator should have statutory power to carry out this monitoring work. It is critical that this monitoring work is performed by individuals with the appropriate skills and seniority.*

### Response

The Government welcomes the recommendation to review the arrangements for registration of the Public Interest Entity (PIE) audit firms, as well as the sanctions that should apply to those firms. The FRC will consult on how to implement the regime envisaged in recommendation 15. The FRC has existing powers to apply a broad range of sanctions beyond audit firm deregistration. They will consult on these sanctions without delay to determine which should be available to them and whether additional powers are needed.

The FRC has agreed to review the skills and seniority of the Audit Firm Monitoring Approach (AFMA) team immediately. Placing the function on a statutory footing will however require legislation, which we will bring forward as soon as Parliamentary time allows.

### Audit expectations and public interest

**Recommendation 17:** *The Review strongly welcomes the proposal that a piece of independent work should be done to explore the issues arising from the audit expectation gap, which have not been addressed in this Review. It is essential that this should be driven, and be seen to be driven, by the interests of users of accounts.*

**Recommendation 18:** *The Government should review the UK's definition of a PIE.*

## Response

The Government was pleased to announce Sir Donald Brydon's review of the quality and effectiveness of audit on 18 December 2018. We look forward to receiving the findings of this review.

The Government welcomes the recommendation that the UK's definition of a Public Interest Entity (PIE) should be reviewed, and will consult on proposals this year.

## Audit Quality Reviews

**Recommendation 20:** *The Review recommends that the new regulator should work towards a position where individual audit quality inspection reports, including gradings, are published in full upon completion of AQRs [Audit Quality Review]. This will, however, be a major step, requiring a high level of confidence in the AQR process. For the present, as a first and interim step, the Review recommends publication of AQR reports on an anonymised basis (similar to the approach taken in the US and the Netherlands, for example).*

**Recommendation 21:** *The Review recommends that the regulator should change its approach to examining the quality of component audit work conducted overseas, on a risk-based basis.*

**Recommendation 22:** *The regulator should revisit and strengthen AQR resourcing, and should seek to:*

- *Recruit more senior staff (including at partner-equivalent level) who would attend AQR inspection visits, adding weight and commanding more substantial respect in conversations with firms; able to make a call on complex matters on-site; and bringing to bear a comparative overview of sector-practice;*
- *Ensure its approach to staffing addresses the need for its teams to include recent experience of external audit and understanding of current practice, in order to test and scrutinise firms as effectively as possible; and*
- *Widen and appropriately deploy the team's sector expertise, in particular in those most complex and high-risk sectors where public interest and risk of corporate failure is highest.*

## Response

The FRC will immediately take forward the recommendation to publish anonymised reports. The Government will work with the FRC to develop an appropriate way forward for publishing the full reports. Careful consideration will be needed to ensure that information published appropriately respects confidentiality, personal data and market sensitivity restrictions.

The FRC will also take forward immediately the recommendation to change its approach to examining the quality of component audit work conducted overseas, on a risk-based basis.

The FRC will take forward the recommendations on audit quality reporting immediately.

## Corporate Reporting Reviews

**Recommendation 24:** *The Review recommends that the regulator should consider expanding the volume of CRR [Corporate Reporting Review] activity on a risk-based basis.*

**Recommendation 25:** *The Review recommends that the new regulator should be given a power to direct changes to accounts rather than having to go to court.*

**Recommendation 26:** *The Review recommends that CRR findings are reported publicly by the regulator. The regulator should publish full correspondence following all CRR reviews, and the findings should be published in a set timeframe.*

**Recommendation 27:** *The Review recommends that the new regulator's CRR work should be limited to PIEs, except to the extent unavoidable under EU law.*

### Response

The FRC will take forward the recommendations on Corporate Reporting Reviews (CRR) on a voluntary basis, which will be underpinned by legislation as soon as Parliamentary time allows.

The Government welcomes the recommendation to give the new regulator a power to direct changes to accounts and will bring forward a legislative power as soon as Parliamentary time allows.

The Government welcomes the proposals to strengthen the CRR function within the FRC. However, lifting confidentiality restrictions in the Companies Act 2006 will require primary legislation. It will also need careful consideration to ensure that the imposition of transparency does not perversely create a change in behaviour in correspondence between firms and the regulator. We will consult on these recommendations in more detail in due course.

The Government welcomes the recommendation that the regulator should focus CRR work on PIEs, however we are keen to ensure that this does not create a gap in oversight for non-public interest entities, and will consider the responses to this consultation in taking forward implementation.

Q5. How will the change in focus of CRR work to PIEs affect corporate reporting for non-public interest entities?

### “Pre-clearance” procedure

**Recommendation 28:** *In addition to stronger retrospective monitoring of company reporting, the Review recommends that the new regulator should introduce a pre-clearance procedure in advance of the publication of accounts.*

### Response

The Government supports the recommendation that, once established, the new regulator should set up a service to provide, for a fee, pre-clearance of the treatment of novel and contentious matters in accounts in advance of their publication. Such a procedure should be piloted initially.

Q6. What are your views on how the pre-clearance of accounts proposed in Recommendation 28 could work?

## Wider role on corporate reporting

**Recommendation 23:** *The regulator should be required to promote brevity and comprehensibility in accounts and annual reports, engage meaningfully with users and asset owners about their information needs, and ensure the proportionality and value of reports. At least once in every Parliament, the FRC should report to BEIS a public assessment of the extent to which the statutory reporting framework is serving the interests of the users of company reports together with any recommendations for how it can be improved.*

**Recommendation 29:** *The Review recommends that the stronger corporate reporting review process described earlier should be extended to cover the entire annual report, including corporate governance reporting. This should be done on the basis of risk.*

**Recommendation 30:** *The Government, working with the FCA [Financial Conduct Authority] and the new regulator, should consider whether there is a case for strengthening qualitative regulation around a wider range of investor information than is covered by the FRC's existing corporate reporting work, to ensure that disciplines to drive up the quality of companies' disclosures in the UK are at least as demanding as best practice internationally. One possibility would be for the new regulator to trial some additional work in this area, on a risk-based and/or sampled pilot basis; if so, this should be done in close collaboration with (or possibly even in support of) the FCA.*

**Recommendation 31:** *The Review recommends that the new regulator should be more sparing and disciplined than the FRC in promulgating guidance and discussion documents. These documents should only be issued if they are genuinely useful, and their utility clearly exceeds the considerable costs they impose through users having to read and check them.*

## Response

The Government supports the proposal to extend the corporate reporting review process to the entire annual report. The FRC will take this forward immediately. The Government will also take forward discussions with the Financial Conduct Authority (FCA) and the FRC to consider the case for strengthening qualitative regulation around a wider range of investor information than is covered by the FRC's existing corporate reporting work. The Government will consult on any proposals which emerge from those discussions in due course.

The FRC will take forward proposals 23 and 31 immediately.

## Enforcement

**Recommendation 32:** *Although the Review is heartened by the FRC's evident recent change in approach, and by the strengthening of the enforcement team's resourcing and new leadership of the enforcement function, the Review recommends that both the board and the Government should continue to monitor enforcement performance closely. The new regulator should report on this in its Annual Report, and the regulator should regularly be held accountable by Parliament through appearances at the BEIS Select Committee.*

**Recommendation 33:** *The regulator should revisit its publication policy in relation to concluded cases that result in undertakings.*

**Recommendation 34:** *The international reach of the regulator's statutory audit enforcement action should be extended, on a risk-based basis.*

**Recommendation 35:** *The Review recommends that enforcement action against accountants in relation to apparent wrongdoing in Public Interest Entities should be undertaken by the regulator on a statutory basis. The current voluntary scheme should be discontinued and replaced with a new statutory regime with tests and powers aligned and similar to those in the AEP [Audit Enforcement Procedure]. Those in scope would be judged against the requirements that already apply to them (legislative requirements, financial reporting standards and professional ethical standards).*

**Recommendation 36:** *The Review recommends that the Government, working with the new regulator, should task the regulator to develop detailed proposals for an effective enforcement regime in relation to Public Interest Entities that holds relevant directors to account for their duties to prepare and approve true and fair accounts and compliant corporate reports, and to deal openly and honestly with auditors. The Review recommends that this should apply to: a company's CEO [Chief Executive Officer], CFO [Chief Financial Officer], chair, and audit committee chair.*

**Recommendation 37:** *The Review recommends that the regime for non-member directors should follow the principles of the Audit Enforcement Procedure, with the same threshold for action to be taken, and a graduated range of sanctions. To achieve this, the regulator should set out relevant requirements or statements of responsibilities in relation to auditing and corporate reporting in order that directors are individually accountable for their roles.*

**Recommendation 38:** *Although the regulator should be able to impose a range of sanctions, the Review recommends that action relating to director disqualification should continue to rest with the Insolvency Service. The Review does, however, recommend that the FRC should have the necessary powers to investigate directors and refer cases to the Insolvency Service, working closely with them to ensure effective action is taken where necessary.*

## Response

The Government and FRC will take recommendation 32 forward immediately.

As with recommendations 20 and 26, the Government agrees with the intention to increase transparency in the FRC's activities. The FRC has the powers to change its publication policy now and will review it immediately, consulting on the revisions.

The Government welcomes the proposals to review and enhance the sanctions regime for audit and for directors. Changes to this regime will require primary legislation and will require careful consideration of how any new policies interact with the existing enforcement framework. The proposal to extend the reach of the regulator's enforcement internationally will need careful consideration to ensure that it can be effective and proportionate in the UK. There are distinct differences between the audit regime in the UK compared to the United States. We will reflect on this recommendation and bring forward full proposals for consultation.

## Oversight of the accountancy profession

**Recommendation 39:** *The regulator should continue to operate its oversight role of the accountancy profession, but with a work programme sufficiently wide and expert to identify any emerging concerns of public interest.*

**Recommendation 40:** *The Review recommends that the Government should put in place a backstop statutory power, requiring action to be taken by a professional body if there was a need in the public interest. The Review recommends that such a power would be activated only if needed and at the regulator's request.*

**Recommendation 41:** *The regulator should replace exchanges of letters with formal memoranda of understanding with each of the UK's professional accountancy bodies.*

### Response

The Government welcomes the proposals to enhance the regulator's role in oversight of the accountancy profession. The FRC will develop a broader work programme immediately in order to support its role in identifying emerging concerns of public interest. Recommendation 40 will require primary legislation to implement, which we will consider alongside recommendations 34 – 38 in order to ensure we develop a coherent enforcement regime for the regulator.

The FRC will take forward immediately the creation of formal memoranda of understanding with each of the UK's professional accountancy bodies.

## Stewardship and investor relations

**Recommendation 42:** *The Review recommends that a fundamental shift in approach is needed to ensure that the revised Stewardship Code more clearly differentiates excellence in stewardship. It should focus on outcomes and effectiveness, not on policy statements. The Government should also consider whether any further powers are needed to assess and promote compliance with the Code. If the Code remains simply a driver of boilerplate reporting, serious consideration should be given to its abolition.*

**Recommendation 43:** *The FRC needs to engage at more senior level in a much wider and deeper dialogue with UK investors, including both fund managers and representatives of end-investors.*

### Response

The Government accepts the Review's recommendation that the Stewardship Code must be demonstrably improved. The FRC is now conducting a consultation on a revised Stewardship Code<sup>1</sup> and has invited responses on whether the proposed revisions help to address concerns identified in the Review including in respect of investment outcomes and effectiveness. The consultation also seeks views on whether new powers are needed to address and promote compliance with the Code.

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<sup>1</sup> <https://www.frc.org.uk/investors/uk-stewardship-code>

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The Government will work with the FRC to ensure that the revised Code fully addresses the concerns identified in the Review, taking into account the responses to the Stewardship Code consultation.

The FRC will immediately begin a wider and deeper dialogue with UK investors in the course of this consultation and beyond its present consultative arrangements with its Investor Advisory Group.

Q7. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?

## Chapter 3 – Corporate failure

The Review recommends that the new regulator should have a forward-looking role in overseeing company reports, alongside its current role of reviewing company accounts. The Government welcomes the recommendations in this chapter which, if implemented would be a world first in audit and corporate reporting regulators. The Review sets a challenging vision for the Government to deliver against, so whilst we welcome all the recommendations and analysis in the Review, implementing them will need careful consideration to ensure they can be delivered effectively and proportionately. Other regulators including the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Insolvency Service have similar forward-looking roles and responsibilities, and we will work with them to learn the best ways to deliver these functions and to ensure that the Financial Reporting Council's (FRC) responsibilities compliment rather than duplicate what is already there.

### Risk awareness

**Recommendation 44:** *The Review recommends that the regulator should develop a robust market intelligence function to identify emerging risks at an early stage, helping to shift its perspective to current and future risks, as well as its existing retrospective focus.*

**Recommendation 45:** *The Review recommends that the Government introduces a duty of alert for auditors to report viability or other serious concerns. The regulator should also take a close interest, and engage with the auditor, in situations where a PIE [Public Interest Entity] auditor has parted company with its client outside the normal rotation cycle.*

### Response

The FRC will take forward the recommendation to introduce a robust market intelligence function immediately. Recommendation 45 will need careful consideration to ensure that it can act as a meaningful warning and market intelligence tool, rather than creating a 'tick box exercise', which auditors feel obliged to use in order to reduce liability, without providing meaningful intelligence. We will work with the FRC to develop a framework which can deliver the ambition set out in the review and consult on proposals in due course. Any future proposals would require primary legislation.

### Powers of the regulator in cases of serious concern

**Recommendation 46:** *The regulator needs to be able to act quickly where potentially serious problems are indicated. The Review recommends that the regulator should be able to require rapid explanations from companies about reasonable concerns raised by the regulator.*

**Recommendation 47:** *The Review recommends that the new regulator should be able to commission a skilled person review, paid for by the company, in circumstances where there is any significant interest arising from its strategic objective:*

*“To protect the interests of investors and the wider public interest by setting high standards of corporate governance, corporate reporting and statutory audit, and by holding to account the companies and professional advisers responsible for meeting those standards.”*

**Recommendation 48:** *The Review recommends that the regulator should have the power to publish the skilled person’s report if it judges that to be in the public interest. Investors would then be able to reach their own conclusions about the company’s conduct and management.*

**Recommendation 49:** *In terms of further action that may flow as a result of an inspection, depending on its findings the Review recommends that the regulator should be given powers to:*

- *Require a company to procure additional assurance on the viability statement or any other aspect of company reports and accounts;*
- *Require a company to procure an independent boardroom evaluation focused on particular areas of concern such as a specific examination of the effectiveness of the audit committee;*
- *Notify the company of its view of the risks to financial viability and require a formal response from the board, with a recovery plan if appropriate; or*
- *Order the removal of the auditor or an immediate retendering.*

**Recommendation 50:** *In the most serious cases, the Review suggests it may be appropriate for the regulator to issue a report to shareholders suggesting that the company’s dividend policy should be reviewed, or that they consider the case for a change of CEO [Chief Executive Officer], CFO [Chief Financial Officer], chair or audit committee chair, or for other strengthening of the board of directors. The Review believes that, where the severity of the facts merit it, the regulator should have the confidence to do this. Decision-making should rest, as now, with boards and shareholders.*

## Response

The Government agrees with the recommendation that the regulator should be able to require rapid explanations from companies, which will require primary legislation to implement.

The Government welcomes the proposal to give the regulator the power to commission a ‘skilled person review’, to publish the conclusions of that review where that is in the public interest, and to take or require action on its conclusions. This framework also needs careful consideration to ensure that it is fit for purpose and fully considers any wider market consequences, whilst respecting company independence, and lessons learned from the similar framework run by the FCA. We will consult on this framework in due course. Any proposals would require primary legislation to implement.

## Internal company controls

**Recommendation 51:** *BEIS should give serious consideration to the case for a strengthened framework around internal controls in the UK, learning any relevant lessons from operation of the Sarbanes-Oxley regime in the US. The pros and cons of options for change should be analysed and consulted upon, giving special consideration to the importance of proportionality in relation to the size of the company.*

## Response

The Government welcomes the recommendation that it should consider the case for adopting a strengthened framework around internal controls on a similar basis to the Sarbanes-Oxley regime in the United States. This is a detailed and complicated issue. We will explore options in this area and bring forward a detailed consultation in due course.

## Viability statements

**Recommendation 52:** *The Review recommends that viability statements should be reviewed and reformed with a view to making them substantially more effective; and if they cannot be made more effective, serious consideration should be given to abolishing them.*

## Response

The FRC will take forward this recommendation immediately.

## Enhanced grading of inspected audits

**Recommendation 53:** *The Review recommends that the regulator considers requiring further enhancement to the Independent Auditor's Report to include "graduated" audit findings.*

## Response

The Government welcomes this recommendation. Careful consideration will be needed on the impact of graduated audit findings to ensure that they promote positive actions from audit firms and improve the quality of audits. Primary legislation will be required to implement the recommendation, and we will consult on proposals in due course.

Q8. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?

## Chapter 4 – The new regulator: oversight and accountability

Chapter 4 of the Review sets out recommendations on how the new regulator should interact with Government and Parliament. The recommendations will ensure that oversight of the regulator is more consistent with other public bodies and will resolve some of the peculiar oversight arrangements that have grown up around the Financial Reporting Council (FRC). The Government welcomes these recommendations and will take them forward. It is important that the new regulator has clear, structured and transparent oversight arrangements, which these recommendations will deliver.

### Governance and accountability

**Recommendation 54:** *The regulator should submit an Annual Report to Parliament.*

**Recommendation 55:** *In terms of its internal systems and controls, the Review recommends that the new regulator must apply:*

- *The provisions of Managing Public Money;*
- *The Regulators' Code, which sets out a clear principles-based framework for how regulators should engage with those they regulate; and*
- *The Public Contracts Regulations regarding procurement.*

**Recommendation 56:** *The regulator should actively promote diversity, especially in its work on corporate governance.*

**Recommendation 62:** *The Review sees no reason why FOI [Freedom of Information] provisions should not apply in full to the regulator's functions and internal running, and recommends that it is designated as a Public Authority for this purpose.*

### Response

The Government welcomes the recommendation that the regulator should submit an annual report to Parliament and the FRC will do this voluntarily. The Government will introduce primary legislation to set the requirement in law as soon as Parliamentary time allows.

The Government welcomes recommendations 55 and 56. The FRC have agreed to implement recommendation 56, and to apply the legislation and documents listed in recommendation 55, including the approach to procurement set out in the Public Contracts Regulations.

The Government welcomes the Review's recommendation 62 to apply Freedom of Information provisions in full to the regulator. The FRC will take this forward voluntarily and the Government will introduce legislation to confirm this as soon as Parliamentary time allows.

## Conflicts of interest

**Recommendation 57:** *The Review recommends that:*

- *For the foreseeable future, it would be wise for the regulator not to allow staff, board or committee members ever to work on any regulatory functions relating to a past employer, removing themselves and/or delegating to others as necessary; and*
- *Written declarations for all staff members' conflicts of interest and financial interests should include proposed mitigations, and record any exercise of management discretion in relation to work undertaken relating to a former employer.*

**Recommendation 58:** *The Review recommends that the regulator should establish a procurement policy that adheres to public contracting regulations, and that follows an open tendering process. Its policy should be published, along with a summary of those contracts awarded that are above the Public Contracts Regulation threshold.*

### Response

The Government recognises the importance of ensuring there are no future actual or perceived conflicts of interest between those working in FRC and its stakeholders. It accepts recommendations 57 and 58 and the FRC will adopt them with immediate effect.

## Complaint handling

**Recommendation 59:** *The Review considers the lack of transparency regarding complaints to be unhelpful and recommends that aggregated data on the trend, nature, and outcome of complaints referred to the FRC be published, as well as information on the speed at which they were dealt with.*

**Recommendation 60:** *The Review recommends that the new regulator should more proactively monitor trends in complaints received by, and regarding, professional bodies, since this provides useful intelligence on the way in which professional bodies are operating. The new regulator should be actively interested in the substance of complaint-handling, especially where it is clear that complaints have merit, and not simply be monitoring process-compliance.*

**Recommendation 61:** *Given the complex nature of the issues dealt with by the FRC, the Review recommends that a central team receive, triage, respond, and ensure appropriate action is taken in relation to complaints or complaint-like contact from stakeholders. That team should also develop clear guidance on how complaints will be dealt with, including timelines. Although basic, the Review considers these changes necessary to improve the regulator's credibility.*

### Response

The Government welcomes recommendation 59 and the FRC will take it forward as soon as possible. Government will include a publication requirement in primary legislation setting up a new regulator as soon as parliamentary time allows.

The Government welcomes recommendations 60 and 61 and the FRC will implement them as soon as possible. Any required primary legislation will be taken forward by Government as soon as parliamentary time allows.

## Confidentiality

**Recommendation 63:** *The Review recommends that the FRC and the new regulator must ensure that their internal procedures and approach to sharing information with external stakeholders, and its procedures to investigate and act on any leaks, are much more robust and effective.*

### Response

The FRC will review their procedures and their approach to sharing information with stakeholders immediately, and will set out guidance for staff, Board and Committee members and stakeholders in line with Cabinet Office guidance. It will also put in place a process for investigating any unauthorised disclosures which complies with Cabinet Office best practice.

Q9. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?

## Chapter 5 – Staffing and resources

Chapter 5 of the Review makes the case that in order to be effective the regulator needs a stable statutory funding base and to have access the right skills and talent to do the job properly. The Government welcomes all these recommendations and will implement them as quickly as possible. The Financial Reporting Council (FRC) will take forward many of them immediately.

### Funding

**Recommendation 64:** *The Review recommends that the regulator should not be funded on a voluntary basis. BEIS should put in place a statutory levy.*

**Recommendation 65:** *The Review recommends that BEIS should agree a new budget, consistent with the Review's recommendations, working with the new regulator and consulting stakeholders.*

**Recommendation 66:** *The Review recommends that BEIS should set the regulator's budget each year, and having consulted, determine the proportions of the levy that will apply to different parties.*

### Response

The Government accepts the recommendation that the new authority should be funded through a statutory levy. The Review does not propose Government funding for the new regulator, and the Government believes that it remains appropriate that the regulator should be funded by market participants. To ensure that the funding arrangements are fair and will provide the new regulator with a stable and independent basis to deliver its new statutory responsibilities a detailed consultation will follow.

The consultation will address the question of which groups of market participants should fund the new authority based on its statutory functions, how those groups should be defined, and how the regulator's costs should be apportioned to each group and to individual companies and other entities within each group.

### Skills, resourcing and remuneration

**Recommendation 67:** *As set out in Chapter 3, the regulator needs to develop new teams, and should look to recruit analysts, investment experts, economists, and those skilled in corporate law.*

**Recommendation 68:** *The Review recommends that the new regulator should develop a staffing and resourcing strategy to achieve the vision set out in this Review. That should include a more diverse approach to hiring. The regulator should also build on the experience of the Financial Reporting Review Panel and, like the other financial regulators, develop a pool of former or retired senior executives and experts – so-called 'grey panthers' – to boost its capacity to deploy expertise at short notice.*

**Recommendation 69:** *The Review recommends that the control arrangements on pay for the regulator should mirror those of other financial regulators such as the FCA, PRA and Ofcom which are not funded by the taxpayer. This approach should apply immediately. The new regulator's budget should be set by Ministers, as should the CEO's pay, but other pay decisions should be made by the regulator subject, of course, to proper transparency, and within the overall financial budget set by Ministers.*

**Recommendation 70:** *The Review recommends that the new regulator's pay arrangements should be set out in the regulator's legal base, and mirror that of Ofcom. That sets out with clarity that the arrangements for the terms, conditions, and remuneration of staff are a matter of Ofcom's responsibility. The Office of Communications Act 2002 states that:*

*Schedule (7)(1): "The employees of Ofcom who are not executive members shall be appointed to and hold their employments on such terms and conditions, including terms and conditions as to remuneration, as Ofcom may determine."*

*The Review recommends that the same wording be used for the founding legislation for the new regulator.*

## Response

The Government welcomes the proposed recruitment approach set out in recommendations 67 and 68. The FRC have agreed that they will take this forward as quickly as possible.

The Government welcomes the recommendations regarding the regulator's pay arrangements. We will work with HM Treasury and Cabinet Office to put in place arrangements that achieve the desired outcome of the Review for the FRC and new regulator.

Q10. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?

## Chapter 6 – Other matters

Chapter 6 of the Review sets out the Review’s recommendations on other issues which affect the regulator. This includes recommendations on competition, actuarial oversight, Local Audit and the National Audit Office (NAO). The Government welcomes all the Review’s recommendations in these areas. It is right that the Independent Review gave thought to all aspects that affect the regulator and its work. These recommendations interact with other policy areas more than the other sections of the Review. We will therefore need to consider these recommendations alongside views from stakeholders more directly involved in these areas, in order to ensure we take these recommendations forward in an effective way.

### Competition role

**Recommendation 71:** *The Review recommends that the new regulator should be given a competition duty in a stronger form than the “have regard to” formulation recommended by the Competition Commission in 2013 and should follow the model set out in Chapter 6, which is broadly based on the FCA’s [Financial Conduct Authority] competition duty.*

**Recommendation 72:** *In addition to a competition duty, the Review also recommends that the regulator should be given a specific statutory function to keep the statutory audit market under review and to report regularly on market and competition developments. This will need to include reporting on trends in audit pricing, the extent of any cross-subsidy from non-audit work and any implications for the quality of audit.*

**Recommendation 73:** *The Review recommends giving the regulator the powers it needs to support a competition duty and an ongoing market review function. In particular, it will need powers to require firms to provide audit pricing, cross-subsidy and market share data. The position should be reviewed again following completion of the CMA’s [Competition and Markets Authority] market study to ensure that the regulator has the powers needed to implement or monitor the CMA’s competition remedies and to act on evolving or new competition issues in the future.*

### Response

The Government welcomes the proposals in the Review for enhanced competition and market review duties, and notes the Review’s recommendation that the position should be reviewed following completion of the Competition and Markets Authority’s (CMA) current market study on competition in the audit market. Placing a statutory duty on the FRC will also require primary legislation.

### Oversight of the actuarial profession

**Recommendation 74:** *The Government, working with the PRA [Prudential Regulation Authority] and TPR [The Pensions Regulator], should review what powers are required effectively to oversee regulation of the actuarial profession.*

**Recommendation 75:** *The Review recommends that neither the FRC, nor its successor body, is best-placed to be the oversight body. The PRA (which employs around 80 actuaries) is a*

*much larger repository of regulatory actuarial expertise than the FRC and would be best-placed to take on all the actuarial responsibilities currently vested in the FRC.*

## Response

The Government welcomes the recommendations in the Review to review the adequacy of arrangements for the oversight of the actuarial profession. We will reflect on these recommendations and bring forward proposals in due course.

## Local audit arrangements

**Recommendation 76:** *The Review recommends that the arrangements for local audit need to be fundamentally rethought to ensure that they:*

- *Deliver robust assessment and scrutiny of the quality of all local audit work, with individual reports shared with audit committees and published;*
- *Establish a more appropriate threshold for enforcement action; and,*
- *Bring together in one place all the relevant responsibilities, so a single regulatory body can take an overview.*

**Recommendation 77:** *Such a role (regarding local audit) could be taken on by the FRC or its successor body, but the Review recommends that it would be much better undertaken by a separate body that has (or could develop) a deeper expertise in the local audit world. That body should have a different and much more focused remit than the former Audit Commission. It should have a clear objective to secure quality, and should set the relevant standards, inspect the quality of relevant audit work and oversee the relevant professional bodies. It should also take on responsibility for appointing auditors for local bodies and agreeing fees.*

**Recommendation 78:** *In the same spirit, the Government should review whether the arrangements now in place for other public sector audits, such as Foundation Trusts, are genuinely robust and effective. It is very unlikely that they are.*

**Recommendation 82:** *The Review also recommends that responsibility for the local audit “Code of Audit Practice” should be moved to the same body that monitors the quality of local audit work.*

## Response

The Government welcomes the recommendations to review the arrangements for oversight of Local Audit, and agrees with Sir John’s view that the Audit Commission should not be reinstated. We are conscious that the recent changes to oversight and procurement of local audit are still bedding in, and will in any case wish to review their effectiveness once evidence is available. We will reflect on and respond to these recommendations as part of that review

## Independent supervision of the National Audit Office

**Recommendation 79:** *Just as the Review recommends public disclosure of AQR [Audit Quality Review] findings and gradings in relation to the private sector, the Review recommends*

*that the new regulator's individual AQR reviews in relation to the NAO [National Audit Office] should be shared with the relevant audit committee and Parliament, and should be published.*

**Recommendation 80:** *The Review recommends that all financial audits in scope of the NAO should be brought within the audit quality monitoring scope of the new regulator, and not only at the discretion of the C&AG [Comptroller and Auditor General].*

**Recommendation 81:** *In light of the Review's recommendations on local audit, and those above, the Review recommends that the Secretary of State for Business, Energy and Industrial Strategy should reassess if the FRC remains the most appropriate body to perform the role of Independent Supervisor of Auditors General in respect of statutory audits.*

## Response

The Government is grateful for the Review's recommendations in relation to oversight of the National Audit Offices' (NAO) statutory audit work, and notes that those are matters for Parliament to consider given the NAO's independence from Government. The Government stands ready to work together to determine the right way forward on those oversight arrangements.

Q11. Are there specific considerations you think should be borne in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?

## Chapter 7 – Interim steps

Chapter 7 of the Review sets out which recommendations can be taken forward immediately. The Government welcomes the Review’s thoughts in this area, which have given a helpful steer in developing this response. The Government agrees with the Review’s ambitions to take forward the recommendations as quickly as possible. We have set out below our initial plan for taking these recommendations forward.

**Recommendation 83:** *An immediate priority task for the FRC and the Government should be to work together to identify and agree a set of measures that should be implemented in the short term ahead of legislative time being available for primary legislation. This interim implementation plan should be published along with a timetable.*

### Response

The table below and the annex to this document set out the Government’s initial view on how to take forward the recommendations in the Review. We will work with the Financial Reporting Council (FRC) and other stakeholders over the coming weeks to develop and publish a more complete implementation plan.

<b>FRC and BEIS will implement as soon as possible</b>	<b>Can be implemented once considered, in advance of legislation</b>	<b>Primary Legislation required</b>
Chapter 1		
Recommendations 2, 7, 8, 9, 10, 12 and 13	Recommendations 4, 5, 6, 11 and 14	Recommendations 1 and 3
Chapter 2		
Recommendation 17, 21, 22, 23, 24, 29, 31, 32, 33, 39, 41 and 43	Recommendations 15, 16, 27, 30 and 42	Recommendations 18, 19, 20, 25, 26, 28, 34, 35, 36, 37, 38 and 40
Chapter 3		
Recommendations 44 and 52		Recommendations 45 to 51 and 53
Chapter 4		
Recommendations 54 to 63		

Chapter 5

Recommendations 67, 68 and 69

Recommendations 64, 65 and 66

Recommendation 70

Chapter 6

Recommendations 71 to 82

Chapter 7

Recommendation 83

Q12. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?

## Conclusions

The Government is grateful to Sir John Kingman and his team for his extensive and thorough Review. Once implemented, the recommendations set out in the Review will ensure that the UK has an effective and world leading regulator for audit and corporate reporting.

Some of the changes set out in the Review are complex and will take further consideration and cooperation to get right. We welcome all views from stakeholders on how we can meet the ambition set out in the Review and create this new world class regulator for the UK.

## Auditor appointment

Alongside his independent Review, Sir John has also put forward a proposed approach to change to the present arrangements for the appointment of auditors. Those suggested changes focus on three specific circumstances:

- Where there has been a meaningful shareholder vote against an auditor appointment;
- Where a company has parted company with its auditor outside the usual rotation cycle;  
or
- Where quality issues have been identified around the company's audit.

In addition, Sir John recommends that the regulator be given a right to approve audit fees for Public Interest Entities (PIEs), where it sees a case for doing so in the interests of quality.

Such changes would not change the fundamental role of shareholders in appointing a company's auditor, and the proposal is to develop an ability for the regulator to intervene, rather than a requirement to do so. The Government will consult on Sir John's detailed proposals.

## Impacts

An impact assessment has not been prepared for this initial consultation document, but will be developed as we take these recommendations forward.

Q13. What evidence or information do you have on the costs and benefits of these reforms?

Q14. What further comments do you wish to make?

# Consultation questions

## Chapter 1 – FRC structure and purpose

**Q1. What comments do you have on the proposed objective set out in Recommendation 4?**

**Q2. What comments do you have on the duties and functions set out in Recommendations 5 & 6?**

**Q3. How do other regulators mitigate the potential for conflict between their standard setting roles and enforcement roles as set out in Recommendation 14?**

**Q4. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?**

## Chapter 2 – FRC: Effectiveness of core functions

**Q5. How will the change in focus of CRR [Corporate Reporting Review] work to PIEs [Public Interest Entities] affect corporate reporting for non-PIE entities?**

**Q6. What are your views on how the pre-clearance of accounts proposed in Recommendation 28 could work?**

**Q7. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?**

## Chapter 3 – Corporate failure

**Q8. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?**

## Chapter 4 – The new regulator: oversight and accountability

**Q9. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?**

## Chapter 5 – Staffing and resources

**Q10. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?**

## Chapter 6 – Other matters

**Q11. Are there specific considerations you think should be borne in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?**

## Chapter 7 – Interim steps

**Q12. Are there specific considerations you think we should bear in mind in taking forward the recommendations in this chapter? Are there other ideas we should consider?**

## Conclusions

**Q13. What evidence or information do you have on the costs and benefits of these reforms?**

**Q14. What further comments do you wish to make?**

# FRC Review recommendations

## Recommendation categories:

- **[Category 1]** reforms will be taken forward immediately, so that the benefits can be obtained without delay;
- **[Category 2]** reforms can be delivered in advance of legislation, but we will consider the detail of the implementation choices;
- **[Category 3]** reforms that will require primary legislation and have wider ramifications, and therefore require deeper consideration and wider consultation.

## Chapter 1 – FRC structure and purpose

- Recommendation 1: The Review recommends that the FRC should be replaced as soon as possible with a new independent regulator with clear statutory powers and objectives. **[Category 3]**
- Recommendation 2: The Review recommends that the new regulator’s statutory powers, purpose and objectives should be complemented – like the FCA’s – by a remit letter from the Government at least once during the lifetime of each Parliament setting out those aspects of economic policy that the regulator should have regard to when advancing its objectives and discharging its duties. The regulator should respond publicly to this letter. **[Category 1]**
- Recommendation 3: The Review recommends that the new regulator should be named the Audit, Reporting and Governance Authority. **[Category 3]**
- Recommendation 4: The Review proposes that the new regulator should have the following strategic objective:

“To protect the interests of users of financial information and the wider public interest by setting high standards of statutory audit, corporate reporting and corporate governance, and by holding to account the companies and professional advisers responsible for meeting those standards.” **[Category 2]**
- Recommendation 5: The full set of duties that the Review proposes be placed on the new regulator are below, requiring that it should act in a way which:
  - Is forward-looking, seeking to anticipate and where possible act on emerging corporate governance, reporting or audit risks, both in the short and the longer term;
  - Promotes competition in the market for statutory audit services;
  - Advances innovation and quality improvements;
  - Promotes brevity, comprehensibility and usefulness in corporate reporting;

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- Is proportionate, having regard to the size and resources of those being regulated and balancing the costs and benefits of regulatory action;
  - Is collaborative, working closely with other regulators both in the UK and internationally; and
  - Prioritises regulatory activity on the basis of risk, having regard to the Regulators' Code. **[Category 2]**
- Recommendation 6: The Review recommends that the new regulator's duties will guide the new regulator in carrying out its core functions on audit and corporate reporting. The Review proposes that its functions should also include:
  - To set and apply high corporate governance, reporting and audit standards;
  - To regulate and be responsible for the registration of the audit profession;
  - To maintain and promote the UK Corporate Governance Code and the UK Stewardship Code, reporting annually on compliance with the Codes;
  - To maintain wide and deep relationships with investors and other users of financial information;
  - To monitor and report on developments in the audit market, including trends in audit pricing, the extent of any cross-subsidy from non-audit work and the implications for the quality of audit; and
  - To appoint inspectors to investigate a company's affairs where there are public interest concerns about any matter that falls within the Authority's statutory competence. **[Category 2]**
- Recommendation 7: The new regulator will require a new board with significant new powers and responsibilities in a challenging environment. It will need to demonstrate strong leadership to effect the major shift in tone and culture to rebuild the respect of those it regulates and other stakeholders. There should be some, but only limited, continuity from the existing FRC board. **[Category 1]**
- Recommendation 8: The Review recommends that the new regulator's board should be significantly smaller than the current one. **[Category 1]**
- Recommendation 9: The regulator's board should comprise a mix of the skills, experience and knowledge needed to ensure strategic direction and effective, constructive challenge to the executive. It should not seek to be "representative" of stakeholder interests. In line with provisions in the UK Corporate Governance Code, appointments should be diverse, based on merit and objective criteria. **[Category 1]**
- Recommendation 10: The Review recommends that all appointments to the regulator's board, including the CEO, should be public appointments approved by the Secretary of State for Business, Energy and Industrial Strategy. **[Category 1]**
- Recommendation 11: There should be a consistent approach to the appointments process and all board, committee and senior posts should be openly advertised with headhunters used. **[Category 2]**

- Recommendation 12: The Review recommends that the posts of chair and CEO should be subject to confirmation hearings with the BEIS Select Committee, if the committee wishes. **[Category 1]**
- Recommendation 13: The Review recommends that the Government, working with the chair of the new board, should review the existing FRC committee and panel structure with a view to achieving a significant simplification of the architecture in line with the principles set out in the Review. Thereafter, there should be a rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. **[Category 1]**
- Recommendation 14: The Review recommends that the board of the new regulator should exercise significantly stronger ownership and oversight of the investigation and enforcement functions. The regulator should ensure that its internal rules and procedures enable the board to:
  - Take decisions itself on whether to launch audit investigations in cases it regards as of particular significance or public interest. The Review does not anticipate the board taking decisions in many such cases, but it should maintain an ability to do so;
  - Require regular reports from the Conduct Committee and from the director of enforcement on progress being made with investigations and any subsequent enforcement decisions; and
  - Question the director of enforcement at any point where it considers that a particular decision or investigation is taking too long. **[Category 2]**

## Chapter 2 – FRC: Effectiveness of core functions

- Recommendation 15: The Review recommends that the approval and registration of audit firms conducting PIE audits should be reclaimed from the RSBs. The Government should work with the regulator to develop and consult on the detail of how this regime should operate. **[Category 2]**
- Recommendation 16: The Review recommends the new regime for the approval and registration of audit firms conducting PIE audits should incorporate a range of sanctions including some that are less severe than the ‘nuclear option’ of audit firm deregistration. **[Category 2]**
- Recommendation 17: The Review strongly welcomes the proposal that a piece of independent work should be done to explore the issues arising from the audit expectation gap, which have not been addressed in this Review. It is essential that this should be driven, and be seen to be driven, by the interests of users of accounts. **[Category 1]**
- Recommendation 18: The Government should review the UK’s definition of a PIE. **[Category 3]**
- Recommendation 19: The Review recommends that AFMA should not be carried out on a voluntary basis, but instead the regulator should have statutory power to carry out this monitoring work. It is critical that this monitoring work is performed by individuals with the appropriate skills and seniority. **[Category 3]**

- Recommendation 20: The Review recommends that the new regulator should work towards a position where individual audit quality inspection reports, including gradings, are published in full upon completion of AQRs. This will, however, be a major step, requiring a high level of confidence in the AQR process. For the present, as a first and interim step, the Review recommends publication of AQR reports on an anonymised basis (similar to the approach taken in the US and the Netherlands, for example). **[Category 3]**
- Recommendation 21: The Review recommends that the regulator should change its approach to examining the quality of component audit work conducted overseas, on a risk-based basis. **[Category 1]**
- Recommendation 22: The regulator should revisit and strengthen AQR resourcing, and should seek to:
  - Recruit more senior staff (including at partner-equivalent level) who would attend AQR inspection visits, adding weight and commanding more substantial respect in conversations with firms; able to make a call on complex matters on-site; and bringing to bear a comparative overview of sector-practice;
  - Ensure its approach to staffing addresses the need for its teams to include recent experience of external audit and understanding of current practice, in order to test and scrutinise firms as effectively as possible; and
  - Widen and appropriately deploy the team's sector expertise, in particular in those most complex and high-risk sectors where public interest and risk of corporate failure is highest. **[Category 1]**
- Recommendation 23: The regulator should be required to promote brevity and comprehensibility in accounts and annual reports, engage meaningfully with users and asset owners about their information needs, and ensure the proportionality and value of reports. At least once in every Parliament, the FRC should report to BEIS a public assessment of the extent to which the statutory reporting framework is serving the interests of the users of company reports together with any recommendations for how it can be improved. **[Category 1]**
- Recommendation 24: The Review recommends that the regulator should consider expanding the volume of CRR activity on a risk-based basis. **[Category 1]**
- Recommendation 25: The Review recommends that the new regulator should be given a power to direct changes to accounts rather than having to go to court. **[Category 3]**
- Recommendation 26: The Review recommends that CRR findings are reported publicly by the regulator. The regulator should publish full correspondence following all CRR reviews, and the findings should be published in a set timeframe. **[Category 3]**
- Recommendation 27: The Review recommends that the new regulator's CRR work should be limited to PIEs, except to the extent unavoidable under EU law. **[Category 2]**
- Recommendation 28: In addition to stronger retrospective monitoring of company reporting, the Review recommends that the new regulator should introduce a pre-clearance procedure in advance of the publication of accounts. **[Category 3]**
- Recommendation 29: The Review recommends that the stronger corporate reporting review process described earlier should be extended to cover the entire annual report,

including corporate governance reporting. This should be done on the basis of risk. **[Category 1]**

- Recommendation 30: The Government, working with the FCA and the new regulator, should consider whether there is a case for strengthening qualitative regulation around a wider range of investor information than is covered by the FRC's existing corporate reporting work, to ensure that disciplines to drive up the quality of companies' disclosures in the UK are at least as demanding as best practice internationally. One possibility would be for the new regulator to trial some additional work in this area, on a risk-based and/or sampled pilot basis; if so, this should be done in close collaboration with (or possibly even in support of) the FCA. **[Category 2]**
- Recommendation 31: The Review recommends that the new regulator should be more sparing and disciplined than the FRC in promulgating guidance and discussion documents. These documents should only be issued if they are genuinely useful, and their utility clearly exceeds the considerable costs they impose through users having to read and check them. **[Category 1]**
- Recommendation 32: Although the Review is heartened by the FRC's evident recent change in approach, and by the strengthening of the enforcement team's resourcing and new leadership of the enforcement function, the Review recommends that both the board and the Government should continue to monitor enforcement performance closely. The new regulator should report on this in its Annual Report, and the regulator should regularly be held accountable by Parliament through appearances at the BEIS Select Committee. **[Category 1]**
- Recommendation 33: The regulator should revisit its publication policy in relation to concluded cases that result in undertakings. **[Category 1]**
- Recommendation 34: The international reach of the regulator's statutory audit enforcement action should be extended, on a risk-based basis. **[Category 3]**
- Recommendation 35: The Review recommends that enforcement action against accountants in relation to apparent wrongdoing in Public Interest Entities should be undertaken by the regulator on a statutory basis. The current voluntary scheme should be discontinued and replaced with a new statutory regime with tests and powers aligned and similar to those in the AEP. Those in scope would be judged against the requirements that already apply to them (legislative requirements, financial reporting standards and professional ethical standards). **[Category 3]**
- Recommendation 36: The Review recommends that the Government, working with the new regulator, should task the regulator to develop detailed proposals for an effective enforcement regime in relation to Public Interest Entities that holds relevant directors to account for their duties to prepare and approve true and fair accounts and compliant corporate reports, and to deal openly and honestly with auditors. The Review recommends that this should apply to: a company's CEO, CFO, chair, and audit committee chair. **[Category 3]**
- Recommendation 37: The Review recommends that the regime for non-member directors should follow the principles of the Audit Enforcement Procedure, with the same threshold for action to be taken, and a graduated range of sanctions. To achieve this, the regulator should set out relevant requirements or statements of responsibilities in relation to auditing and corporate reporting in order that directors are individually accountable for their roles. **[Category 3]**

- Recommendation 38: Although the regulator should be able to impose a range of sanctions, the Review recommends that action relating to director disqualification should continue to rest with the Insolvency Service. The Review does, however, recommend that the FRC should have the necessary powers to investigate directors and refer cases to the Insolvency Service, working closely with them to ensure effective action is taken where necessary. **[Category 3]**
- Recommendation 39: The regulator should continue to operate its oversight role of the accountancy profession, but with a work programme sufficiently wide and expert to identify any emerging concerns of public interest. **[Category 1]**
- Recommendation 40: The Review recommends that the Government should put in place a backstop statutory power, requiring action to be taken by a professional body if there was a need in the public interest. The Review recommends that such a power would be activated only if needed and at the regulator's request. **[Category 3]**
- Recommendation 41: The regulator should replace exchanges of letters with formal memoranda of understanding with each of the UK's professional accountancy bodies. **[Category 1]**
- Recommendation 42: The Review recommends that a fundamental shift in approach is needed to ensure that the revised Stewardship Code more clearly differentiates excellence in stewardship. It should focus on outcomes and effectiveness, not on policy statements. The Government should also consider whether any further powers are needed to assess and promote compliance with the Code. If the Code remains simply a driver of boilerplate reporting, serious consideration should be given to its abolition. **[Category 2]**
- Recommendation 43: The FRC needs to engage at more senior level in a much wider and deeper dialogue with UK investors, including both fund managers and representatives of end-investors. **[Category 1]**

## Chapter 3 – Corporate failure

- Recommendation 44: The Review recommends that the regulator should develop a robust market intelligence function to identify emerging risks at an early stage, helping to shift its perspective to current and future risks, as well as its existing retrospective focus. **[Category 1]**
- Recommendation 45: The Review recommends that the Government introduces a duty of alert for auditors to report viability or other serious concerns. The regulator should also take a close interest, and engage with the auditor, in situations where a PIE auditor has parted company with its client outside the normal rotation cycle. **[Category 3]**
- Recommendation 46: The regulator needs to be able to act quickly where potentially serious problems are indicated. The Review recommends that the regulator should be able to require rapid explanations from companies about reasonable concerns raised by the regulator. **[Category 3]**
- Recommendation 47: The Review recommends that the new regulator should be able to commission a skilled person review, paid for by the company, in circumstances where there is any significant interest arising from its strategic objective:

“To protect the interests of investors and the wider public interest by setting high standards of corporate governance, corporate reporting and statutory audit, and by holding to account the companies and professional advisers responsible for meeting those standards.” **[Category 3]**

- Recommendation 48: The Review recommends that the regulator should have the power to publish the skilled person’s report if it judges that to be in the public interest. Investors would then be able to reach their own conclusions about the company’s conduct and management. **[Category 3]**
- Recommendation 49: In terms of further action that may flow as a result of an inspection, depending on its findings the Review recommends that the regulator should be given powers to:
  - Require a company to procure additional assurance on the viability statement or any other aspect of company reports and accounts;
  - Require a company to procure an independent boardroom evaluation focused on particular areas of concern such as a specific examination of the effectiveness of the audit committee;
  - Notify the company of its view of the risks to financial viability and require a formal response from the board, with a recovery plan if appropriate; or
  - Order the removal of the auditor or an immediate retendering. **[Category 3]**
- Recommendation 50: In the most serious cases, the Review suggests it may be appropriate for the regulator to issue a report to shareholders suggesting that the company’s dividend policy should be reviewed, or that they consider the case for a change of CEO, CFO, chair or audit committee chair, or for other strengthening of the board of directors. The Review believes that, where the severity of the facts merit it, the regulator should have the confidence to do this. Decision-making should rest, as now, with boards and shareholders. **[Category 3]**
- Recommendation 51: BEIS should give serious consideration to the case for a strengthened framework around internal controls in the UK, learning any relevant lessons from operation of the Sarbanes-Oxley regime in the US. The pros and cons of options for change should be analysed and consulted upon, giving special consideration to the importance of proportionality in relation to the size of the company. **[Category 3]**
- Recommendation 52: The Review recommends that viability statements should be reviewed and reformed with a view to making them substantially more effective; and if they cannot be made more effective, serious consideration should be given to abolishing them. **[Category 1]**
- Recommendation 53: The Review recommends that the regulator considers requiring further enhancement to the Independent Auditor’s Report to include “graduated” audit findings. **[Category 3]**

## Chapter 4 – The new regulator: oversight and accountability

- Recommendation 54: The regulator should submit an Annual Report to Parliament. **[Category 1]**

- Recommendation 55: In terms of its internal systems and controls, the Review recommends that the new regulator must apply:
  - The provisions of Managing Public Money;
  - The Regulators' Code, which sets out a clear principles-based framework for how regulators should engage with those they regulate; and
  - The Public Contracts Regulations regarding procurement. **[Category 1]**
- Recommendation 56: The regulator should actively promote diversity, especially in its work on corporate governance. **[Category 1]**
- Recommendation 57: The Review recommends that:
  - For the foreseeable future, it would be wise for the regulator not to allow staff, board or committee members ever to work on any regulatory functions relating to a past employer, removing themselves and/or delegating to others as necessary; and
  - Written declarations for all staff members' conflicts of interest and financial interests should include proposed mitigations, and record any exercise of management discretion in relation to work undertaken relating to a former employer. **[Category 1]**
- Recommendation 58: The Review recommends that the regulator should establish a procurement policy that adheres to public contracting regulations, and that follows an open tendering process. Its policy should be published, along with a summary of those contracts awarded that are above the Public Contracts Regulation threshold. **[Category 1]**
- Recommendation 59: The Review considers the lack of transparency regarding complaints to be unhelpful and recommends that aggregated data on the trend, nature, and outcome of complaints referred to the FRC be published, as well as information on the speed at which they were dealt with. **[Category 1]**
- Recommendation 60: The Review recommends that the new regulator should more proactively monitor trends in complaints received by, and regarding, professional bodies, since this provides useful intelligence on the way in which professional bodies are operating. The new regulator should be actively interested in the substance of complaint-handling, especially where it is clear that complaints have merit, and not simply be monitoring process-compliance. **[Category 1]**
- Recommendation 61: Given the complex nature of the issues dealt with by the FRC, the Review recommends that a central team receive, triage, respond, and ensure appropriate action is taken in relation to complaints or complaint-like contact from stakeholders. That team should also develop clear guidance on how complaints will be dealt with, including timelines. Although basic, the Review considers these changes necessary to improve the regulator's credibility. **[Category 1]**
- Recommendation 62: The Review sees no reason why FOI provisions should not apply in full to the regulator's functions and internal running, and recommends that it is designated as a Public Authority for this purpose. **[Category 1]**

- Recommendation 63: The Review recommends that FRC and the new regulator must ensure that their internal procedures and approach to sharing information with external stakeholders, and its procedures to investigate and act on any leaks, are much more robust and effective. **[Category 1]**

## Chapter 5 – Staffing and resources

- Recommendation 64: The Review recommends that the regulator should not be funded on a voluntary basis. BEIS should put in place a statutory levy. **[Category 2]**
- Recommendation 65: The Review recommends that BEIS should agree a new budget, consistent with the Review’s recommendations, working with the new regulator and consulting stakeholders. **[Category 2]**
- Recommendation 66: The Review recommends that BEIS should set the regulator’s budget each year, and having consulted, determine the proportions of the levy that will apply to different parties. **[Category 2]**
- Recommendation 67: As set out in Chapter 3, the regulator needs to develop new teams, and should look to recruit analysts, investment experts, economists, and those skilled in corporate law. **[Category 1]**
- Recommendation 68: The Review recommends that the new regulator should develop a staffing and resourcing strategy to achieve the vision set out in this Review. That should include a more diverse approach to hiring. The regulator should also build on the experience of the Financial Reporting Review Panel and, like the other financial regulators, develop a pool of former or retired senior executives and experts – so-called ‘grey panthers’ – to boost its capacity to deploy expertise at short notice. **[Category 1]**
- Recommendation 69: The Review recommends that the control arrangements on pay for the regulator should mirror those of other financial regulators such as the FCA, PRA and Ofcom which are not funded by the taxpayer. This approach should apply immediately. The new regulator’s budget should be set by Ministers, as should the CEO’s pay, but other pay decisions should be made by the regulator subject, of course, to proper transparency, and within the overall financial budget set by Ministers. **[Category 1]**
- Recommendation 70: The Review recommends that the new regulator’s pay arrangements should be set out in the regulator’s legal base, and mirror that of Ofcom. That sets out with clarity that the arrangements for the terms, conditions, and remuneration of staff are a matter of Ofcom’s responsibility. The Office of Communications Act 2002 states that:

Schedule (7)(1): “The employees of Ofcom who are not executive members shall be appointed to and hold their employments on such terms and conditions, including terms and conditions as to remuneration, as Ofcom may determine.”

The Review recommends that the same wording be used for the founding legislation for the new regulator. **[Category 3]**

## Chapter 6 – Other matters

- Recommendation 71: The Review recommends that the new regulator should be given a competition duty in a stronger form than the “have regard to” formulation recommended by the Competition Commission in 2013 and should follow the model set out in Chapter 6, which is broadly based on the FCA’s competition duty. **[Category 3]**
- Recommendation 72: In addition to a competition duty, the Review also recommends that the regulator should be given a specific statutory function to keep the statutory audit market under review and to report regularly on market and competition developments. This will need to include reporting on trends in audit pricing, the extent of any cross-subsidy from non-audit work and any implications for the quality of audit. **[Category 3]**
- Recommendation 73: The Review recommends giving the regulator the powers it needs to support a competition duty and an ongoing market review function. In particular, it will need powers to require firms to provide audit pricing, cross-subsidy and market share data. The position should be reviewed again following completion of the CMA’s market study to ensure that the regulator has the powers needed to implement or monitor the CMA’s competition remedies and to act on evolving or new competition issues in the future. **[Category 3]**
- Recommendation 74: The Government, working with the PRA and TPR, should review what powers are required effectively to oversee regulation of the actuarial profession. **[Category 3]**
- Recommendation 75: The Review recommends that neither the FRC, nor its successor body, is best-placed to be the oversight body. The PRA (which employs around 80 actuaries) is a much larger repository of regulatory actuarial expertise than the FRC and would be best-placed to take on all the actuarial responsibilities currently vested in the FRC. **[Category 3]**
- Recommendation 76: The Review recommends that the arrangements for local audit need to be fundamentally rethought to ensure that they:
  - Deliver robust assessment and scrutiny of the quality of all local audit work, with individual reports shared with audit committees and published;
  - Establish a more appropriate threshold for enforcement action; and,
  - Bring together in one place all the relevant responsibilities, so a single regulatory body can take an overview. **[Category 3]**
- Recommendation 77: Such a role (regarding local audit) could be taken on by the FRC or its successor body, but the Review recommends that it would be much better undertaken by a separate body that has (or could develop) a deeper expertise in the local audit world. That body should have a different and much more focused remit than the former Audit Commission. It should have a clear objective to secure quality, and should set the relevant standards, inspect the quality of relevant audit work and oversee the relevant professional bodies. It should also take on responsibility for appointing auditors for local bodies and agreeing fees. **[Category 3]**
- Recommendation 78: In the same spirit, the Government should review whether the arrangements now in place for other public sector audits, such as Foundation Trusts, are genuinely robust and effective. It is very unlikely that they are. **[Category 3]**

- Recommendation 79: Just as the Review recommends public disclosure of AQR findings and gradings in relation to the private sector, the Review recommends that the new regulator’s individual AQR reviews in relation to the NAO should be shared with the relevant audit committee and Parliament, and should be published. **[Category 3]**
- Recommendation 80: The Review recommends that all financial audits in scope of the NAO should be brought within the audit quality monitoring scope of the new regulator, and not only at the discretion of the C&AG. **[Category 3]**
- Recommendation 81: In light of the Review’s recommendations on local audit, and those above, the Review recommends that the Secretary of State for Business, Energy and Industrial Strategy should reassess if the FRC remains the most appropriate body to perform the role of Independent Supervisor of Auditors General in respect of statutory audits. **[Category 3]**
- Recommendation 82: The Review also recommends that responsibility for the local audit “Code of Audit Practice” should be moved to the same body that monitors the quality of local audit work. **[Category 3]**

## Chapter 7 – Interim steps

- Recommendation 83: An immediate priority task for the FRC and the Government should be to work together to identify and agree a set of measures that should be implemented in the short term ahead of legislative time being available for primary legislation. This interim implementation plan should be published along with a timetable. **[Category 1]**

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This consultation is available from: [www.gov.uk/government/consultations/independent-review-of-the-financial-reporting-council-initial-consultation-on-recommendations](https://www.gov.uk/government/consultations/independent-review-of-the-financial-reporting-council-initial-consultation-on-recommendations)

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