

Natasha Landell-Mills
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Dear Natasha

We want to respond to the points raised in your recent position paper, dated 12th October 2017, on the audit enforcement activity of the FRC to which we were alerted in the Patrick Hosking's Times article on Monday, 16th October.

I am disappointed to discuss these matters in this way, following the discussion at our meeting on Wednesday 11th October. We are also disappointed that you did not share your intention to send the position paper with us at that time, nor did you send us a copy of the paper when you published it.

There are a number of specific issues we would like to respond to.

BEIS oversight

You describe our legal constitution as *piecemeal and opaque*, questioning how we fulfil our obligations in the oversight of audit to the Government. The FRC's governance is well established and we are ultimately accountable to Parliament. We send our annual report to the Secretary of State, who lays it before Parliament each year. We also consult on our strategy and annual plan and budget each year and hold bi-annual open meetings.

FRC Independence

On the question of the FRC's independence, I reiterate and elaborate below some of the points we discussed in our meeting.

As the competent authority for audit in the UK, we require input from individuals with relevant skills and knowledge on highly technical issues. We must be able to utilise those with the greatest expertise. It is understandable therefore that we need to draw on expertise from those who have worked in the largest accountancy firms. EU law requires that auditors must not sit on regulatory decision taking boards within three years of practice. This requirement is reflected in the FRC's Articles of Association. Of the 15 Board members, five left large accounting firms between seven and 22 years ago. The other 10 Board members have a variety of backgrounds including business, banking, investments, the actuarial profession and the civil service.

Of the bodies with decision making powers, only 35% of members have previously (and satisfying the EU provision above) worked in the 'Big 6' audit firms. Board members declare interests during meetings and these are recorded in the minutes which are available on the FRC website. With regards to transparency around a register of interest, while there is no requirement for us to publish a register of interests we have already announced plans to publish a register later this year and we will do so shortly.

The Conduct Committee is the body who determine whether to open an investigation, under the FRC's enforcement procedures. The Chairman of this committee is David Childs who is a lawyer. The FRC Code of Conduct includes a conflict of interests policy and ensures that any member of the Conduct Committee plays no part in decisions where there may be a conflict of interest. I explained when we met how this worked in practice. Once an investigation is open, the decision to prosecute or close a case is entirely for the Executive Counsel, who is also a lawyer. Neither Executive Counsel, nor the Senior Lawyers who manage investigations, have ever been an employee of any of the Big-6 Audit Firms.

Funding:

In your position paper you claim that the FRC relies on the audit profession for 50% of its funding and that this is voluntary. This is incorrect.

Approximately 50% of the FRC's funding is from the audit Recognised Supervisory Bodies, who are required to contribute in accordance with the provisions of the Companies Act 2006 and the Delegation Agreement between the FRC and those bodies. The remainder of the FRC's funding is requested from, other groups subject to, having regard to, or benefiting from FRC regulation with the agreement with HM Government.

The role of FRC in both standard setting and enforcement

The FRC Board is responsible for setting standards and does so on the advice of the Codes and Standards Committee and its Councils.

The Board has no decision making authority in Enforcement matters. Specific enforcement decisions are reserved to the Conduct Committee under the various enforcement procedures. Oversight of the Enforcement Division is also reserved to the Conduct Committee.

FRC Enforcement Investigations are conducted by an Enforcement Division, following the decision to investigate by a regulatory committee i.e the Conduct Committee. Thereafter, Audit Enforcement Procedure matters are decided at initial stages by the Executive Counsel, at a subsequent stage (if the initial decision is not accepted) by a separate Enforcement Committee independently convened, and ultimately (if the Enforcement Committee Decision is not accepted) by an independently convened Tribunal staffed by independent appointees. Accounting and Actuarial misconduct cases proceed straight to the independent Tribunal, following the delivery of a formal complaint by the Executive Council.

Clarity around our public body status and Freedom of Information requirements

The FRC's classification as a public body has been confirmed. The FRC is (and has been since the Companies Act 2006 came into effect) partially designated under the Freedom of Information Act, in relation to its performance of delegated Secretary of State functions under

Part 42 Companies Act 2006. To the extent that the FRC's designation under the Act changes, the FRC will comply with its legislative duties.

This letter provides insight into your areas of concern. If you would like to meet us again to discuss these matters we would be happy to do so.

This letter will be published on the FRC website.

Yours sincerely

A handwritten signature in cursive script that reads "Paul George".

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