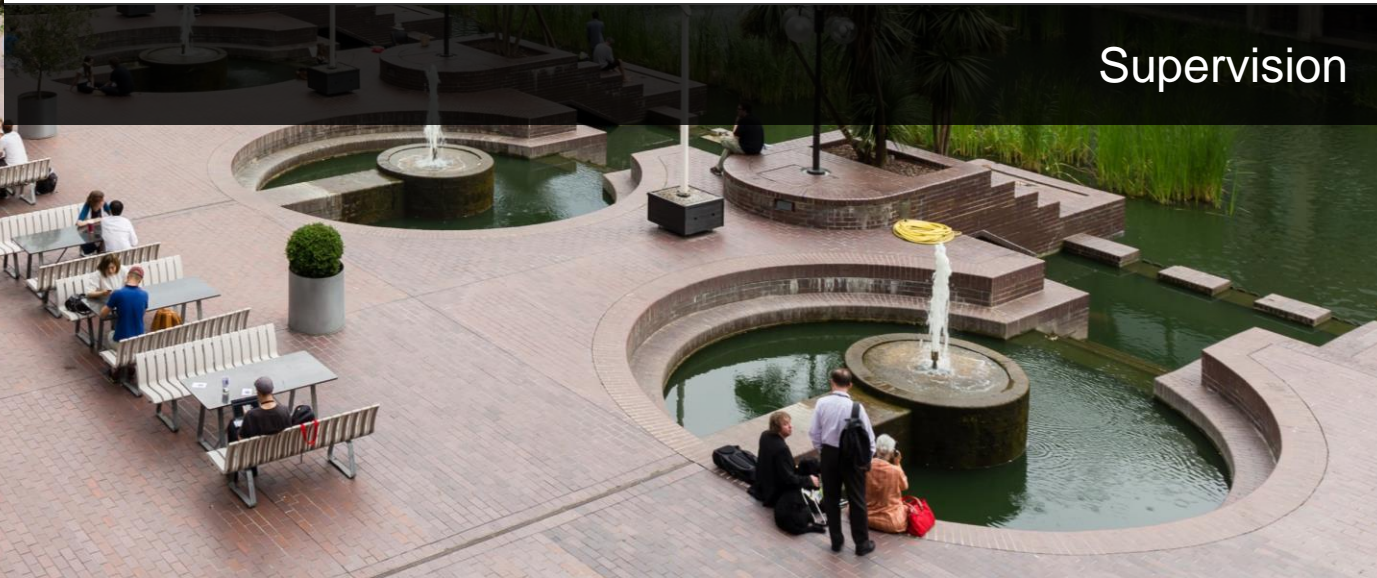




# Restoring trust in audit and corporate governance



Supervision

# Restoring trust in audit and corporate governance

- The Department for Business, Energy and Industrial Strategy (BEIS) has published its consultation, 'Restoring trust in audit and corporate governance'.
- This consultation is the next step in the process of reform and a significant milestone towards setting up a new, robust and independent regulator.
- As part of our stakeholder engagement to support BEIS' consultation, we have launched a series of webinars and roundtables so that all stakeholders can engage with and discuss the key themes of the consultation.

## Restoring trust in audit and corporate governance

Consultation on the government's proposals

March 2021

Closing date: 8 July 2021

CP 382





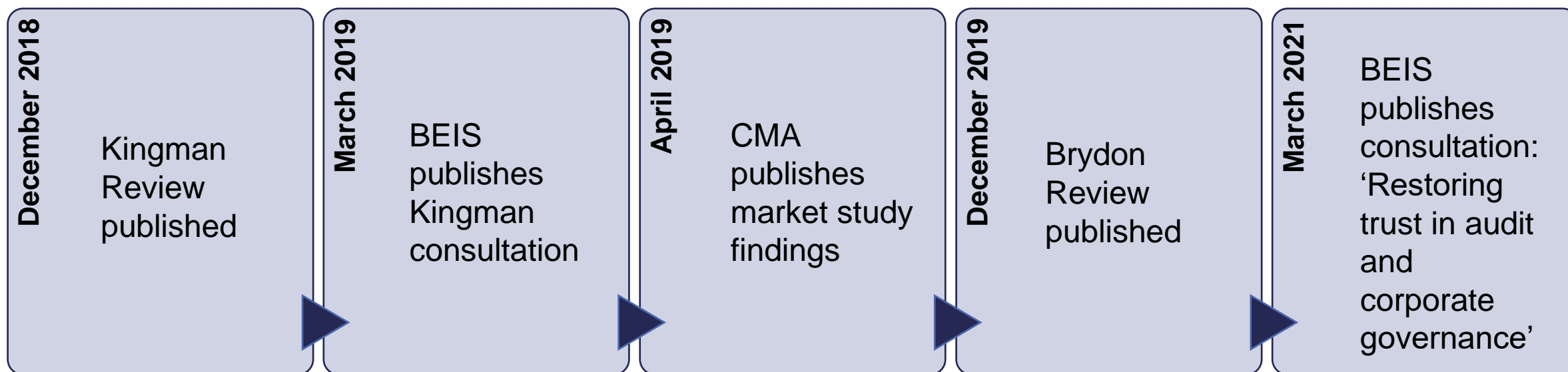
# Reform objectives

The proposals aim to:

- Restore public trust in the way that the UK's largest companies are run and scrutinised
- Ensure that the UK's most significant corporate entities are governed responsibly
- Empower investors, creditors, workers and other stakeholders by giving them access to reliable and meaningful information on a company's performance
- Keep the UK's legal frameworks for major businesses at the forefront of international best practice

# The journey so far

A timeline of key events



# Key engagement themes

We are focusing on six key themes across our engagement and today will be focusing on:



# Speakers



**Jen Sisson**

Deputy Director of  
Stakeholder  
Engagement



**Claire Lindridge**

Director of Audit  
Market Supervision



**Malcolm Millar**

Case Director,  
Corporate Reporting  
Review



**David Rule**

Executive Director of  
Supervision

# Supervision

Scope of Corporate Reporting Review

Scope of Audit Quality Review

PIE auditor registration



# Scope of Corporate Reporting Review

What is this section about:

- The Government proposes to broaden the regulator's review powers so that it can scrutinise the entire contents of a company's Annual Report and Accounts, give the regulator the power to direct changes to be made to a company's report and accounts (where it is fair to do so) and increase the transparency of the regulator's review work through the publication of more information about its findings.



# Scope of Corporate Reporting Review

- The FRC Review recommended that ARGA should be able to order amendments to company reports directly, rather than requiring a court order which is the current position. This would ensure parity with the regulator's overseas counterparts and be consistent with the Government's vision of a stronger regulator.
- Specifically, the Government proposes to replace the regulator's current power to seek a court order with a power to direct changes to reports and accounts.
- The Government proposes to give the regulator powers allowing it to publish correspondence entered into during the course of a CRR review, as well as summary findings. The Government wants the regulator to first test whether a 'summary of findings' will provide sufficient transparency, and to only move to full publication of correspondence only if the initial approach fails to deliver adequate transparency.
- The proposals in this section also include measures to strengthen corporate reporting review activity, by:

Expanding the volume of CRR activity

Directing that the new regulator should focus most of its proactive CRR work on PIEs but should retain its current powers to investigate reporting by non-PIE companies

Extending CRR work to a wider range of investor information; a pilot study by the FRC and FCA will look at preliminary results and investor presentations to establish whether additional powers are needed.

# Scope of Corporate Reporting Review

The Government will give the regulator powers allowing it to publish correspondence entered into during the course of a CRR, as well as summary findings.

- The regulator's current CRR powers currently only extend to certain parts of the annual report and accounts, namely the strategic report, the accounts themselves and the directors' report.
- This means that important – required – aspects of the annual report relating to corporate governance are not subject to formal FRC oversight. This includes the corporate governance statement (unless this is included in the directors' report) and the directors' remuneration and audit committee reports.
- The Government will accordingly legislate to extend both the existing power to request information from companies and the new power to direct changes to accounts to cover the entire content of the annual report.

The FRC Review recommended that the regulator should be able to offer companies a pre-clearance service for novel and contentious matters connected with the interpretation of accounting standards in advance of the publication of the annual reports.

- The Government will ensure that ARGA has the necessary powers to provide a pre-clearance service, including a statutory exemption from liability where it offers this service.
- However, in view of the apparent lack of strong demand, the Government considers that the decision on whether and when to offer a pre-clearance service, and whether it should be preceded by a pilot, should be a matter for the regulator.
- This will depend on its assessment of priorities, likely demand and having access to the necessary resources and high-level expertise.



# Scope of Audit Quality Review

What is this section about:

- To ensure higher levels of transparency as to the performance of PIE auditors, the Government intends to legislate to allow AQR reports on individual audits to be published by the regulator without the need for consent from the audit firm and the audited entity.
- The regulator will be free to decide whether this is publication 'in full' or in summary form. The Government will put in place safeguards to prohibit the publication of sensitive information about audited entities.

# Scope of Audit Quality Review

Government proposals and intended outcomes

## Proposal

The Government intends to provide the regulator with its own powers to require a UK group auditor to provide it with access to overseas component working papers, instead of relying on the RSB rules, in order to enable the regulator to assess more thoroughly how well the UK group auditor has discharged its responsibilities.

Under the proposed power for the regulator to access overseas component working papers, where those papers are accessed and examined as part of an AQR inspection, the regulator might have concerns about the UK group auditor's engagement with the overseas component auditors or could identify a potential breach by the UK group auditor of a relevant audit requirement.

## Intended outcome

In these cases, it is intended the regulator could investigate and, if appropriate, take enforcement action against the UK group auditor under existing audit enforcement procedures. The Government considers enforcement action against the UK group auditor is appropriate, and there are sufficient powers to enable this.



# PIE auditor registration

What is this section about:

- The FRC Review was concerned that the delegation of the approval and registration of statutory auditors leaves the regulator without sufficient power to act where systemic quality issues are identified.
- The Review called for approval and registration to instead be carried out by the regulator, which would be able to impose a range of sanctions.
- The Review also recommended that the regulator should also be responsible for keeping the register of firms that have been approved as being eligible for appointment as a statutory auditor.



# PIE auditor registration

Responsibility for appointment decisions

- The Government has concluded that the regulator should carry out the task of determining whether individuals and firms are eligible for appointment as statutory auditors of PIEs, rather than continuing the present delegation of this task to the RSBs.
- The RSBs would continue to carry out the delegated task of determining whether individuals and firms are eligible to be appointed as statutory auditors of non-PIE entities.
- The Government considers that the task of entering ARGA-approved individuals and firms onto the register of statutory auditors should fall to the RSBs, which are better placed to carry it out.

- An important cause of poor-quality audits is weak performance by the lead auditor with overall responsibility for the audit. Although the FRC Review's recommendations focused on the approval of firms, the Government considers that in order to improve the quality of PIE statutory audits, it is important that the regulator directly approves both the individuals and firms which carry out PIE audits.
- The FRC Review also recommended that the regulator should have the power to apply a range of sanctions in relation to PIE auditors to enable it to carry out its new role effectively.
- The initial consultation on the Review noted however that the FRC already has a range of sanctioning powers in relation to PIE audits, and not just audit firm deregistration.
- The Government does not therefore consider any changes to the FRC's sanctioning powers are needed as a consequence of the FRC reclaiming this function.

# Government considerations



Any questions?

# What's next?

The next steps in the process

# Webinars and roundtables

Details of all other webinars and roundtables across the six workstreams can be found on [our website](#)

## Roundtables on supervision

**For investors:** Tuesday 11<sup>th</sup> May, 11:00 – 12:30

**For companies and boards:** Wednesday 28<sup>th</sup> April, 15:00 – 16:30

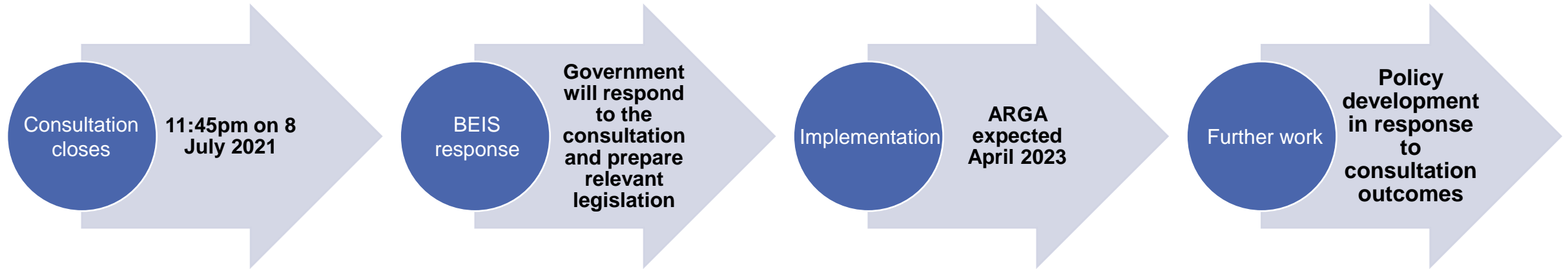
**For auditors, audit firms & professional bodies:** Thursday 20<sup>th</sup> May, 15:00 – 16:30

**For all other interested parties:** Thursday 6<sup>th</sup> May, 15:00 – 16:30

To register for roundtables, please email [stakeholderengagement@frc.org.uk](mailto:stakeholderengagement@frc.org.uk).



# Next steps



Responses can be submitted either via the [gov.uk](https://www.gov.uk) website, or by email to [audit.consultation@beis.gov.uk](mailto:audit.consultation@beis.gov.uk).



# Thank you