



**Stephen Haddrill**

**Chief Executive**

**FRC Public Meeting**

**Tuesday 5<sup>th</sup> March @ 4pm**

**Salter's Hall, EC2Y 5DE**

The FRC's responsibilities are wide covering corporate governance, corporate reporting, audit and investor stewardship plus actuarial standards and professional oversight. We need to ensure these work together in a strategic alliance.

I am pleased that in his review of the FRC Sir John Kingman recommended that a new statutory body should be set with the same broad scope as the FRC but with stronger powers and a mission and objectives more focussed on investors and users of accounts.

Starting with corporate governance. In 2018 we introduced the revised corporate governance code. This is shorter and sharper. It places new emphasis on Boards taking account of all key stakeholder's interests. This reflects the concerns of our society at large and specifically investors' growing recognition that companies need to take account of their broad stakeholder base if they are to flourish and retain public as well as investor confidence.

The Code also emphasises the importance of the company looking to create value over the long term and that it builds a culture that supports its longer-term vision.

We plan to review how effectively the Code is being implemented by companies at the end of this year. We will scrutinise how well companies early adopting have reported on what they have done and publicise our findings. In 2020 when reporting under the revised code is fully

effective we will extend this to more detailed scrutiny. We aim to do this ahead of the legislation proposed by Kingman to extend our review scope to the full annual report remit.

Good governance is essential but not an island to itself. It needs to be kept sharp through effective investor engagement. To promote such engagement, we are currently consulting on the Stewardship Code. The UK Code was world leading when introduced but now it needs to be refreshed. We want to see investors – those who put up their own money, not those who manage it – demand high quality stewardship by their fund managers and the managers responding to that demand.

Our proposals are wide – ranging but perhaps most important is that we are looking to the fund management industry to explain what they aim to achieve from stewardship – to talk about their goals - and then to report on the real outcomes they have achieved.

At the same time, we are also looking to fund managers to focus on the new elements of the corporate governance code and send a clear message to companies about the importance they place on it. We need to create a virtuous circle between governance and stewardship.

For that circle to work well, however, it needs two further components. High quality reporting and audit.

We need to see companies properly explaining their business model, strategy, future viability risks to the strategy, and actual performance. As Sir John Kingman said, reports have lost clarity.

We share Sir John's concern late last year we launched a major review on the purpose of corporate reporting in the future, and how information should best be presented including using digital technology effectively. This work is now well underway, and we plan to complete it towards the end of the year.

The final component is audit. The quality of audit has rightly emerged as a major public concern.

Last year we saw a decline in our audit quality inspection results after some years of improvement. During the last year we have reinforced our audit quality reviews in response. In particular we have extended the scope of our work to focus on the quality of governance, leadership and culture in the major firms as well as on the quality of individual audits. This expanded scope is being conducted with the voluntary agreement of the firms and we welcome Sir John Kingman's support for it having a statutory basis.

As I outlined in a speech over a year ago we need auditors to do more to anticipate problems facing the business, not just to provide assurance of past performance but shine a bright light on risks and their implications for future performance. This is one of the questions Sir Donald Brydon will no doubt address in his review of the future scope of audit.

Major reform, following Brydon will probably require legislation to redefine the responsibilities of both the company and the auditor to look ahead.

However, in the meantime we have been reviewed whether the audit standards can be strengthened to require more work by the auditor to test the company's assessment of going concern and future viability. We have just published our proposals. We are also including work on the effectiveness of longer-term viability reports in our review of the FRC's guide to

risk management, internal controls and related reporting. The deep public concern at the apparently unexpected nature of some corporate failures needs to be addressed and we are determined to do what we can within our current powers to tackle this.

Looking ahead, Sir John recommends stronger powers for the new regulator to dig deeper into what companies are doing or not doing in governance and reporting. We very much welcome these recommendations and will support any proposals to legislate.

As well as audit quality and the role of audit, there is also the question of auditor independence. Quality auditing requires a wholly independent mind set to underpin a robust challenge of management. In our review of auditing and ethical standards, we are consulting on a wider ban on the sale of all but essential non-audit services to audit clients, going well beyond the EU legislation that the government put into UK law in 2016.

So, in conclusion, we have major programmes of work across governance, stewardship, reporting and audit. We will be recruiting more people and seeking to secure deeper sectoral and senior experience as Sir John recommends. We will also need to recruit a new UK IFRS Endorsement Board for the adoption of accounting standards.

All this will require investment in regulation. The cost will be set out in our plan and budget which we will publish shortly.

We have a full programme of work to implement as much of Kingman as possible. This programme is wide-ranging but with stewardship at its heart- stewardship by fund managers and by directors. Which brings me to our guest John Plender.