

Open letter to FRC stakeholders

16 April 2019

### **FRC stakeholder survey 2018**

I would like to thank all those who took part in our latest stakeholder survey.

The FRC's [Draft Plan and Budget 2019/20](#) was issued a couple of weeks ago setting out an ambitious programme of work to help rebuild trust in business through good governance, reporting and auditing. I hope this programme helps to answer the points raised by the stakeholder survey responses, particularly on audit where confidence in the work of the FRC has fallen compared with the previous year's survey results.

Your feedback is extremely important to us, particularly in informing how we follow up the recommendations made by Sir John Kingman in the recent [Independent Review of the FRC](#). Many of the views expressed in the stakeholder survey are consistent with the evidence presented by the Review and the recommendations address many of the concerns raised. We will now be working with Government as a priority to take forward those recommendations that can be implemented or initiated in advance of legislation to create a new statutory regulator - the Audit, Reporting and Governance Authority (ARGA) - into which FRC will transition.

On audit, we will enhance our programme of Audit Firm Monitoring and Supervision, undertake a major new programme of work including the review of the impact of the auditing and ethical standards introduced in 2016, contributing to both the Brydon review of the scope and purpose of audit and the ongoing work by the Competition and Markets Authority on the structure of the audit market.

Views on corporate governance and reporting were more positive and the majority of those who were familiar with the FRC's work in these areas still rated them as positive. This year we will monitor take-up of the new [UK Corporate Governance Code](#) introduced in 2018, increase the number of corporate reporting reviews and continue the major project on the [future of corporate reporting](#) we launched in 2018.

Investor stewardship had a lower profile with stakeholders than the other areas of our work. However, we have recently issued a consultation on a revised [UK Stewardship Code](#) which aims to encourage more active stewardship by pension funds and institutional investors.

The proportion of stakeholders saying that the FRC is effective in its communications declined substantially compared with the previous year and more thought that the FRC lacked *transparency*. We remain committed to openness and transparency in how we operate as public body and the decisions we take. We publish minutes of our Board meetings, a register of interests and hospitality received. In line with recommendations in the Review, we will voluntarily apply Freedom of Information provisions to all our work prior to formal designation as a public authority, adopt new procedures on confidentiality, conflicts of interests and procurement, and institute new arrangements for responding to, and reporting on, complaints.

There was some recognition in both the Review and the stakeholder survey responses that there are sensitivities in reporting specific details of enforcement cases but that reporting more information regarding undertakings will act as a deterrent.

The stakeholder survey also highlighted concerns about the FRC's *independence* from the professions and firms we regulate and that there was limited knowledge about the safeguards the FRC already has in place. Better explaining these safeguards will form part of our communications activities for the coming year.

#### BEIS consultation on the Independent Review of the Financial Reporting Council

An initial [consultation](#) has been issued by the Department for Business, Energy and Industrial Strategy (BEIS) on the Independent Review findings. We welcome this consultation and hope that a diverse range of organisations and individuals respond to it. We will move to implement the agreed proposals as soon as possible.

Given that the consultation is on the extensive set of recommendations made in the Independent Review we do not plan to run a stakeholder survey this year. However, if you have any comments you would like to make about this survey please email: [enquiries@frc.org.uk](mailto:enquiries@frc.org.uk)

Yours Sincerely,

Stephen Haddrill

CEO Financial Reporting Council