



FINANCIAL REPORTING COUNCIL

**FUTURE STRUCTURE AND REGULATORY
PROCEDURES**

MARCH 2012

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1. Introduction and Summary

Introduction

- This paper describes the future structure of the Financial Reporting Council ('FRC') and the way it will operate and be resourced. It has been prepared in the light of the joint consultation by the Department for Business, Innovation and Skills (BIS) and the FRC on reform, and in particular alongside the joint response to that consultation (available at www.bis.gov.uk/Consultations). It responds to the requests in that consultation for more detail on future procedures and explains how and where responsibility will lie for decisions made at all stages of the regulatory process and, as appropriate, the extent to which such decisions will be subject to oversight (recognising the need for certain parts of the FRC's regulatory activities, such as disciplinary proceedings, to be undertaken independently). The legislative proposals described in this document are subject to debate and approval by Parliament.

The FRC's role

- The FRC promotes high quality corporate governance and reporting to foster investment. It does this primarily;

In the area of Codes and Standards by:

- Setting relevant UK codes and standards and related guidance for governance, accounting, auditing and actuarial work,
- Influencing codes and standards at international level, and
- Researching potential improvements in those areas;

In the area of Conduct by:

- Authorising Recognised Supervisory Bodies ('RSBs') and Recognised Qualifying Bodies ('RQBs') to approve accountants to carry out audits and to offer a recognised audit qualification respectively, and reviewing the way that the RSBs and RQBs discharge their responsibilities;
- Overseeing how the Actuarial Profession regulates its members;

- Inspecting and reporting upon the quality of the work performed by auditors of public interest entities;
 - Reviewing the reports and accounts of public interest entities to determine compliance with the applicable financial reporting framework; and
 - Investigating possible misconduct by professional accountants and/or actuaries and, where appropriate in the public interest, pursuing disciplinary proceedings.
- The proposals to reform the FRC are designed to achieve three principal objectives:
 - To ensure the organisation is joined-up and streamlined, with an ability to focus on key strategic issues;
 - To introduce an integrated and more efficient approach to the FRC's key regulatory roles – with a wider range of proportionate sanctions and greater independence from those it regulates; and
 - To develop the FRC's existing expertise and further enhance its standing and influence in international regulation.
- To achieve these objectives the reform proposals involve a new structure which seeks to ensure there is effective governance of all the FRC's regulatory activities under the ultimate responsibility of the FRC Board. The proposals also seek to ensure that the responsibility for decisions, and as appropriate oversight, lies at a level where there is an appropriate balance of experience, expertise and understanding of the impact on stakeholders and on the overall quality of governance and reporting. For the purposes of setting codes and standards this should be at Board level.

Regulatory Approach

- In discharging its responsibilities, the FRC will focus on issues of material significance to investors and users of the capital markets in relation to the quality of corporate governance and reporting; be driven by evidence, fairness and proportionality in deciding what action to take; and will report openly on these activities and the reasons for them unless doing so could damage the public interest. Specifically the FRC will be:
 - Transparent:
 - The FRC will exercise its powers and act generally in an independent and objective manner in order to promote confidence in the quality of corporate governance and reporting.
 - The FRC will set out clearly and publicly the principles and policy objectives it is seeking to uphold and how these are consistent with its mission.
 - In developing its codes and standards, the FRC will publish drafts of proposed documents and seek feedback before reaching conclusions. It will report the feedback it receives and the rationale for its conclusions.
 - The FRC consideration of and decisions in relation to codes and standards will be accessible to members of the public and any relevant papers will be published on the FRC website in advance.
 - Accountable:
 - The FRC will publish an Annual Report in accordance with best practice in the corporate sector and report annually to Parliament on all its key work.
 - The FRC will report publicly upon the discharge of its responsibilities and, unless inappropriate to do so, following any review, investigation or disciplinary proceeding where action is taken.
 - Where no action is taken, the FRC will consider whether, in the interests of fairness to a particular party or more generally, any report or statement would be appropriate.

- Proportionate:
 - The FRC will act proportionately when exercising its powers, including carrying out inspections, pursuing investigations or reporting.
 - The FRC will take account of the cooperation of and/or actions taken by any party or parties involved in any enforcement proceedings.
 - The FRC will have regard to the need for its Codes and Standards to be applied in a proportionate manner in different circumstances, adopting, where possible, principles that can be scaled appropriately and at reasonable cost.

- Consistent and Fair:
 - The FRC will base the actions it takes on the purpose and principles of the law, regulation, code or standard that it is considering.
 - The decisions made by the FRC will be evidence based.
 - The FRC will act in a timely manner, having proper regard to the legitimate interests of all affected parties.

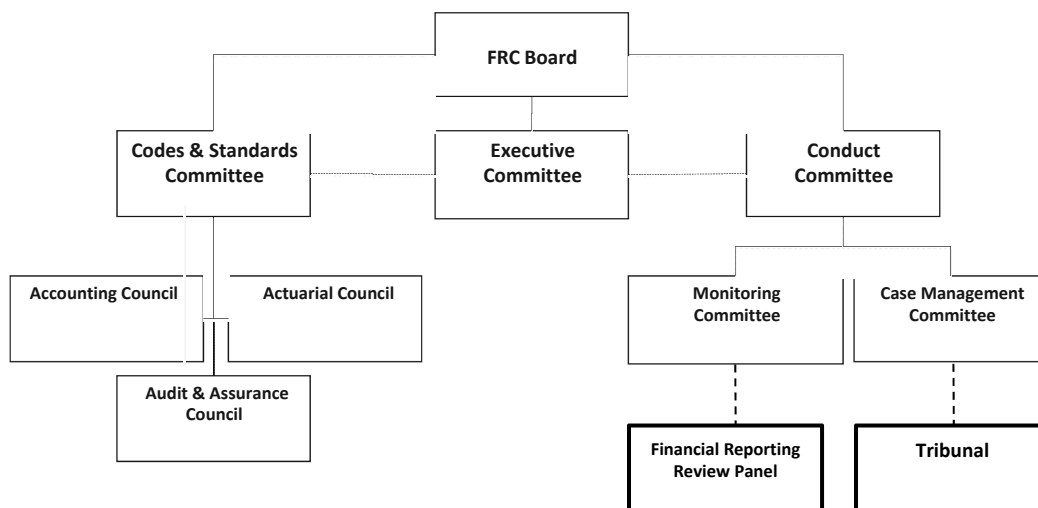
- Targeted:
 - The FRC will exercise its powers to promote behaviour by accountants and actuaries that enhances confidence in their ability to discharge their professional responsibilities in the public interest.
 - The FRC will have regard to the likely impact, both intended and unintended, on stakeholders of its proposed actions.

2. Board and Committee Composition

FRC Board

- The strategic direction of the FRC and key decisions on standards and how the organisation will discharge its responsibilities will be taken by the Board. The Board will be supported by three Committees: a Codes and Standards Committee ('CSC'), a Conduct Committee ('CC'), and an Executive Committee. In relation to codes, standard setting and policy questions the FRC will be advised by three Councils, on Accounting, Audit & Assurance and Actuarial matters. Its CC will be supported by two sub-committees - on its monitoring/supervisory work and on disciplinary matters.

Proposed FRC Structure



- The FRC Board will ensure that the organisation as a whole fulfils its core mission and operates in the public interest in accordance with the principles of good regulation and its regulatory approach. Subject to the enactment of the proposed statutory instruments, it will exercise the statutory powers delegated by the Government. Specifically, it will set and amend UK accounting, audit and actuarial standards. It will also maintain the effectiveness of the UK Corporate Governance and Stewardship Codes. It will also set the annual Business Plan of the FRC and oversee the effectiveness of the executive.

- As much standard-setting is conducted at international level, the Board will oversee the FRC's international work with appropriate members playing a significant role in representing it as the UK standard-setter at major national standard-setting and similar senior meetings. As European developments in corporate governance and reporting are likely to be of particular importance, the FRC will ensure that, where possible, it is appropriately represented on key decision making and influencing bodies.
- The new FRC Board will comprise the Chair, Deputy Chair, Chief Executive, two Executive Directors, the Chairs of the CC and CSC and non-executives with a balance of skills and experience in investment, audit, accounting and actuarial matters. Non-executive Board members will chair the three Councils. The FRC will aim always to have a majority of non-executives. The FRC's articles will enshrine the need for balance and independence (for example, by including limitations on the positions that may be held by currently practising auditors and officers of professional bodies).
- The FRC Board Chair and Deputy Chair will be appointed by the Government. Other appointments to the Board will be made by the Board with the advice of its Nominations Committee. The process will involve an outside assessor to ensure that the Board and its Nominations Committee follow due process in accordance with best practice for bodies operating in the public interest. The Nominations Committee will, in particular, make recommendations designed to ensure that the FRC Board is balanced so as to enable it to fulfil its responsibilities with appropriate knowledge and experience whilst maintaining independence from those the FRC regulates. All members of the Board will be responsible for ensuring that the FRC's engagement with stakeholders is of high quality. The FRC Board, advised by the Nominations Committee, will be responsible for appointing the members of the CSC and the CC.
- The Board's governance will be conducted in as close conformity with the Corporate Governance Code as is appropriate for a regulator, including regular Board performance reviews. As a regulator serving the public interest it will practise a high level of transparency and publish papers on key matters of public interest, especially on changes to Codes and Standards, in advance of meetings. The FRC will also consider whether, and if so, in what circumstances, it will open discussions on such matters to the public.

Codes and Standards Committee

- The FRC Board will be responsible for issuing codes and standards, but may delegate other decisions, for example, guidance related to the application of codes and standards, as it sees fit.
- The CSC will be responsible for advising the FRC Board on maintaining an effective framework of UK codes and standards, on influencing the wider regulatory framework and on its research programme. It will advise the FRC Board on the Annual Plan for Codes and Standards work and for making appointments to, and overseeing the work of, the Councils. It will pay special attention to identifying cross-cutting issues that the FRC needs to tackle, looking across the coverage of individual codes and standards, identifying emerging risks and ensuring work is in hand to manage them. It will advise the Board on corporate governance questions. It will decide those matters delegated to it by the Board, for example, on some international issues. The CSC will comprise Board members together with others with particular technical expertise, including practising professionals.
- The FRC Board and the CSC will be advised by three Councils covering accounting (including both accounting and narrative reporting), auditing and other assurance work and actuarial work. These are an important part of the new decision making structure. Their advice will be put fully to the FRC Board. The Board member chairing each Council will act as a guarantor of this and will be responsible for submitting the Council's advice to the Board. The minutes of meetings of the FRC Board will be published. They will record the discussion and the views expressed. If the Board rejects a Council's advice, it will explain its reasons and consult further with the relevant Council before taking a decision. In the event any such differences of view remain unresolved, the nature and reasons for such differences of view will be made public.
- The FRC Board member chairing the relevant Council will in general lead the response to formal consultations by other authorities – including, for example, the European Financial Reporting Advisory Group and the international standard-setting bodies unless it is appropriate for this to be done by the Chairman or Chief Executive.

Conduct Committee

- The CC will be responsible for overseeing the FRC's conduct work in promoting high quality corporate reporting. In particular, the CC will decide whether to apply to Court for an order requiring the directors of a company to amend its accounts.
- The CC will set strategic goals for the FRC's supervisory, monitoring and disciplinary work, including by identifying the main areas of risk that need to be addressed. It will set standards for the quality of supervisory work and the criteria to be applied in regulatory decisions. It will, in particular, determine how a major new issue should be looked into and what kind of regulatory intervention is most appropriate. It will also monitor the progress of disciplinary activities.
- The CC will comprise Board members and other members with a range of skills and experience and relevant technical expertise. It will have a lay majority of members and exclude current practising auditors or officers of the professional bodies it regulates.
- The CC will be supported by two sub-committees, one to ensure the consistency and quality of the FRC's monitoring work and one to advise on the handling of disciplinary cases. These Committees will comprise Members of the Conduct Committee and others to the extent necessary to achieve the appropriate balance of technical expertise and independence.

Executive Committee

- The FRC Board will have an Executive Committee to provide day to day management of the FRC's resources (including staff) and activities (including the effective interaction of the work of the Board's two main committees). The Executive Committee will be chaired by the Chief Executive and also comprise the two Executive Directors and the General Council & Company Secretary.
- The Finance Director and Strategy Director will normally attend Executive Committee meetings.

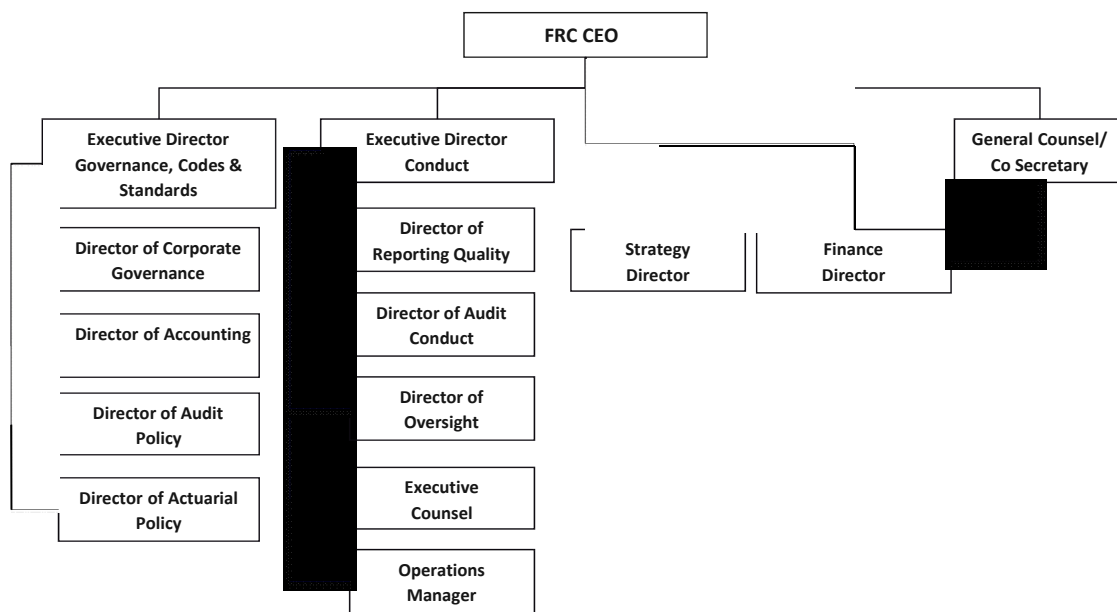
Detailed schedule of roles and responsibilities

The appendix sets out the roles and responsibilities of the Board, its Committees, the Councils and the Conduct Sub-Committees.

Executive structure

The executive structure of the FRC is as follows:

Proposed Senior Executive Structure



Resources and funding

- The costs associated with the FRC activities post-reform will continue to be met on the basis established following public consultation in 2008. The FRC employs approximately 100 staff, and its total budget for 2011/12 was £22m.
- Core operating costs in relation to corporate governance, accounting, auditing and the oversight of the accountancy profession (£12.2m budget in 2011/12) were met through a preparer's levy (contributing £7.0m), a levy on the accountancy profession (£4.7m) and a Government contribution (£0.5m). Audit inspection costs (£2.8m budget 2011/12) and accountancy disciplinary case costs (£4.4m estimate 2011/12) are funded by the relevant professional body of the member or member firm subject to the investigation.
- All costs, including disciplinary cases, in relation to actuarial standards and regulation (£2.6m budgeted costs in 2011/12, plus a contribution to reserves of £0.3m) are met through levies on insurance companies (£1.3m) and pension funds (£1.3m) and a contribution from the actuarial profession (£0.3m).
- It is anticipated that the reform proposals will have no material impact on overall staff numbers.

3. Codes and Standards

- The FRC Board will be responsible for setting and amending UK corporate governance codes and accounting, auditing and assurance and actuarial standards. This will necessitate a change to the existing legislation to replace any references to the FRC's Operating Bodies with the FRC.
- To enable it to discharge this responsibility the FRC Board will be advised by the CSC on the steps to be taken to maintain an effective framework of UK codes and standards.
- To provide the FRC Board and the CSC with clear proposals drawing on appropriate technical and stakeholder input, three Councils will be established: the Accounting Council, the Audit and Assurance Council and the Actuarial Council.

The Codes and Standards Committee

- The CSC will be chaired by a Director of the FRC and comprise FRC Directors (including the Deputy Chairman of the FRC), the Board members who chair the three Councils and, if necessary, additional individuals with knowledge and experience that is relevant to the areas that the Committee will address.
- The CSC will:
 - Oversee the work of the Councils in accordance with the strategic direction provided by the FRC Board ensuring that the resources of the whole of the FRC relevant to a particular issue are properly deployed;
 - Ensure that codes and standards are developed in an open and transparent manner with the full involvement of market participants;
 - Monitor international developments to ensure that UK input into international standard setting bodies is both appropriate and effective;
 - Provide input to the FRC Board on its plan, having taken the advice of the Councils;
 - Advise the FRC Board on corporate governance matters, including proposed changes to the UK Corporate Governance Code and the Stewardship Code;
 - Appoint members to Councils;

- Assess the risks to the quality of corporate reporting in the UK and approve the adequacy of actions to mitigate those risks;
- Propose policy positions to the FRC on matters where the FRC seeks to influence other standard setters; and
- Oversee the research programme of the FRC in relation to codes and standards.

The Councils

- The Councils, in relation to their areas of expertise, and the CSC, in relation to corporate governance matters, will be responsible for:
 - Providing strategic input and thought leadership, both in their area of expertise and the work-plan of the FRC as a whole. This will involve “horizon-scanning” and consulting with practitioners or users;
 - Considering and advising the FRC Board upon draft codes and standards (or amendments thereto) to ensure that a high quality, effective and proportionate approach is taken;
 - Considering and commenting upon proposed developments in relation to international codes and standards and regulations; and
 - Consider and advise on research proposals and other initiatives undertaken to inform the FRC on matters material to its remit and any resultant publications.
- Each Council will comprise up to ten members, at least one third of which will be practising members of the relevant profession and the remainder will be other stakeholders. Members of the Councils will be appointed through an open process overseen by the Chair of the CSC subject to the overall guidance of the Nominations Committee of the FRC. Initial appointments will seek to ensure an effective transition from the FRC’s current standard setting Boards.

Other Groups

- In order to address particular issues, groups may be established to advise the Executive, the Board and/or the CSC. Such groups will be constituted with the expertise appropriate to address the group's particular remit. Such a remit, for example, might be to address an issue such as UK GAAP or the requirements of the public sector, the

Republic of Ireland, or other users of standards issued by the FRC such as the SME sector. The CSC will appoint the members, establish the remit and periodically review the need for any such group. Such a group will report to the relevant Council or the CSC (as the CSC shall determine) which will report, as necessary, to the FRC Board.

4. Oversight of the accountancy and actuarial professions

Introduction

- The FRC's oversight activities comprise a combination of statutory and non-statutory responsibilities. The principal statutory responsibilities relate to statutory audit only and include granting, refusing or revoking recognition of a body as a recognised supervisory body or a qualification as a recognised qualification; the independent supervision of Auditors General; the approval of an overseas audit qualification; and the regulation of third country auditors.
- Non-statutory oversight responsibilities cover how certain UK accountancy and actuarial bodies¹ regulate their members. This work is undertaken on a contractual basis with the bodies concerned.

Governance of statutory responsibilities

- The FRC's Articles of Association will enshrine the legal principle that the Board shall have no power to delegate to any committee or working group or to any other person authority to discharge functions delegated to it by the Secretary of State under Part 42 of the Companies Act 2006 (the Act).
- Any decision (whether at a meeting or by circulation of a resolution) made pursuant to a statutory delegation will be made by way of written resolution and such a resolution will be carried only if two-thirds or more Board Members assent in writing to the resolution.

¹ Association of Chartered Certified Accountants (ACCA)
Chartered Accountants Ireland (CAI)
Chartered Institute of Management Accountants (CIMA)
Chartered Institute of Public Finance and Accountancy (CIPFA)
Institute of Chartered Accountants in England and Wales (ICAEW)
Institute of Chartered Accountants of Scotland (ICAS)
Institute and Faculty of Actuaries

Recognised supervisory and qualifying bodies (RSBs and RQBs)²

- The FRC Board will be responsible for:
 - decisions to recognise, refuse recognition or revoke recognition of an RSB or RQB;
 - applying to Court for an Order to require a Body to meet its statutory obligations;
 - directing a Body to take steps to meet its statutory obligations;
 - imposing financial penalties on a Body; and,
 - reporting on an annual basis to the Secretary of State on how it has discharged its statutory responsibilities.
- The CC will be responsible for
 - approving the executive's risk-based monitoring of each RSB and RQB's compliance with the requirements of the Act;
 - overseeing progress against the work programme and the basis of private reporting to the individual bodies;
 - advising the FRC Board on any decision to revoke recognition, to apply to Court for an order or to impose any direction or financial penalty; and,
 - approving any plans to undertake thematic studies designed to complement the FRC's RSB and RQB monitoring work and the publication of any findings from such work.

Independent Supervisor

- The FRC will be appointed under S.1228 of the Act to be the Independent Supervisor of Auditors General (AGs). The FRC will discharge its responsibilities either by establishing supervision arrangements itself or entering into supervision arrangements with one or more bodies, and then overseeing the effective operation of such arrangements. The FRC will report annually to the Secretary of State how it has discharged these responsibilities

² The following bodies are RSBs and RQBs:

Association of Chartered Certified Accountants (ACCA)

Chartered Accountants Ireland (CAI)

Institute of Chartered Accountants in England and Wales (ICAEW)

Institute of Chartered Accountants of Scotland (ICAS)

In addition the:

Association of Authorised Public Accountants (AAPA) is an RSB; and

Association of International Accountants (AIA) is an RQB

- The FRC Board will be responsible for:
 - Issuing any notice suspending an AG's eligibility for appointment as a statutory auditor; and
 - Deciding to apply to Court for a compliance order.

The recognition of overseas audit qualifications

- The FRC Board will be responsible under s.1221 of the Act for making a declaration, on the advice of the CC, that certain persons hold an approved overseas audit qualification and for withdrawing any such declaration.
- The CC will be responsible for approving the scope of any work to assess a third country audit qualification, the FRC's approach to considering the comparability of the treatment of holders of the UK qualification and for making a recommendation to the FRC Board.

Third Country Auditors

- The FRC Board will be responsible for overseeing the FRC's approach to the regulation of Third Country Auditors (TCAs), and the removal of any TCA from the register.
- The CC will be responsible for developing plans for the approach to the regulation of TCAs including the establishment of a proportionate monitoring regime and, through its Monitoring Committee, making recommendations to the FRC Board for the removal of a TCA from the register.
- Maintenance of the TCA register, including decisions on whether a TCA meets the requirement for registration, will be undertaken by the executive.

Governance of non-statutory oversight functions

- The FRC's non-statutory oversight functions cover accountants and actuaries. Oversight of accountants will be undertaken as part of its RSB and RQB monitoring³, through thematic studies, complaint handling and monitoring developments that could adversely affect public confidence in accountants.
- Oversight of how the Actuarial Profession regulates its members will include monitoring developments, liaising where appropriate with other regulators, to assess those issues that could adversely affect public confidence in actuaries, undertaking relevant research making recommendations to the Actuarial Profession and monitoring their progress in implementing recommendations.
- The approach to non-statutory oversight will be governed by the CC, with oversight by the FRC through the annual planning and reporting cycle.

³ Typically RSB or RQB's apply the same overall regulatory systems to both accountants and accountants who are auditors.

5. Monitoring the quality of corporate reporting and auditing

Introduction

- Monitoring of the quality of corporate reporting is currently undertaken by the Financial Reporting Review Panel (FRRP) and of auditing by the Audit Inspection Unit (AIU):
 - The FRRP is authorised by the Secretary of State pursuant to section 457 Companies Act 2006 to apply to the court for a declaration that a company's annual accounts or directors' report do not comply with the provisions of the Act and for an order requiring the accounts and/or report to be revised.
 - The Companies Act 2006 requires RSBs to participate in arrangements independent of the RSB in relation to the independent monitoring of audits of listed companies and other major bodies, which is undertaken by the AIU.

Governance of monitoring work

- The FRC Board will be responsible for maintaining and publishing detailed operating procedures for its audit monitoring work, auditor and audit firm sanctioning and overall generic reporting.

The FRC Board will not make regulatory decisions on individual conduct cases, hold detailed discussions on specific cases, or approve reports on the monitoring of individual firms in relation to the quality of reporting or auditing.

- The CC will be responsible for maintaining and publishing detailed Operating Procedures following consultation with BIS in relation to the monitoring of annual accounts and directors' reports for compliance with the Companies Act.
- The CC will be responsible for agreeing the detailed monitoring operating plans (covering the monitoring of both corporate reports and major audits) including the identification and management of risks to corporate reporting quality, the detailed scope of work, areas of focus and transparency.
- The CC will establish a Monitoring Committee (MC) to support the consistency of the FRC's monitoring work and its overall quality of work. The work of the MC will evolve with experience. Initially the MC will:

- Ensure a consistent approach to the review of corporate reporting and statutory audit;
 - Agree the inspection review grade for individual audit engagements;
 - Approve a letter summarising the key findings from a review of an individual audit engagement;
 - Agree a public report on an individual firm in relation to audit quality;
 - Determine a condition or sanction for acceptance by an auditor or audit firm;
 - Where such a condition or sanction is not accepted by the auditor or audit firm, refer the matter to an independent tribunal;
 - Require the RSB to implement any condition or sanction accepted by an auditor or audit firm or determined by the independent tribunal;
 - Appoint a FRR Group;
 - Refer a matter to the CC with a view to an investigation leading to possible disciplinary action.
- In relation to the monitoring of corporate reporting the CC will maintain a panel of experts known as the FRRP from which an FRR Group may be appointed by the MC to advise the CC on whether there are grounds for the CC to apply to Court to require the entity to amend its accounts. The FRR Group will comprise five members including at least two members of the CC. The CC will consider that advice together with any financial or reputational issues and decide whether to make such an application.
 - The Operating Procedures (see above) will include provision for the maintenance of the FRRP, the appointment and composition of FRR Groups by the MC, the procedures to be followed and the governance of the decision to apply to the Court.
 - In relation to the monitoring of the quality of audit, inspections will be conducted in accordance with the Audit Regulations and Operating Procedures in relation to Confidentiality.
 - In relation the determination of sanctions which the RSBs will be required to impose on auditors and/or audit firms, detailed Sanctioning Procedures will be issued by the FRC Board. The Procedures will include provision for reports being submitted to the MC with, where applicable, the recommendation that a condition or sanction be approved by

the MC, the acceptance of that condition or sanction by the auditor or audit firm, the right to a hearing by an independent tribunal in the event that the condition or sanction is not accepted and notification of any resulting condition or sanction to the relevant Body for imposition by it.

6. Supervisory Inquiries

Introduction

- The FRC will establish the capacity to undertake supervisory inquiries to provide an understanding of the reasons for the collapse or near collapse of a public interest entity or other issue affecting confidence in corporate governance or reporting. Such inquiries would enable the FRC to consider whether any further regulatory or other action should be taken, including whether any improvements should be made to the corporate reporting and governance regime, or whether more formal disciplinary proceedings should be set in hand.
- In particular supervisory inquiries will provide:
 - A bridge between the various elements of the FRC's conduct work and between the monitoring of audit quality and the disciplinary arrangements in particular;
 - Input to the Codes and Standards function of the FRC;
 - Information sufficient to decide whether to investigate a matter with a view to disciplinary action (together with appropriate protections for those involved);
 - Investigative resources focused on the most appropriate issues;
 - The proportionate use of other regulatory tools available to the FRC for less serious issues and ensure the appropriate lessons are articulated in a more timely fashion; and
 - A basis for more thematic studies of issues affecting confidence in Corporate Reporting and Governance.

Governance of supervisory inquiries

- The CC will be responsible for decisions to commence a supervisory inquiry and for approving the scope of any such inquiries.

- A supervisory inquiry will not be initiated unless there are indications that there might have been either significant individual or systemic shortcomings or risks to the quality of corporate governance of public interest entities.
- Examples of situations which may merit a supervisory inquiry include the following:
 - A major corporate collapse or near collapse shortly after the release of their annual report
 - A major fraud
 - A significant restatement
 - Widespread concerns over the quality of reporting or governance on a particular issue, for example client assets
- Initially it is not anticipated that the FRC will have any additional powers to conduct such inquiries. Should it become apparent that the FRC is unable to conduct such work effectively within its existing powers, BIS has indicated that it would consider providing the FRC with further powers.
- Depending on the scope of a particular inquiry, it is envisaged that the fieldwork would be undertaken by a team drawn from across the FRC's conduct division. Each supervisory inquiry would be individually scoped, but is likely to include the following:
 - A review of all publicly available information
 - A technical review of the latest (and prior) financial statements
 - A review of certain aspects of the latest (and prior) audit files
 - Discussions with other regulators
 - To the extent possible, discussions with the relevant parties
 - The preparation of an emerging issues report
 - Consideration of what further information or work is required
 - A report to the CC

- The CC will be responsible for considering the results of a supervisory inquiry and determining the appropriate outcome, for example:
 - The referral for a formal investigation with a view to potential disciplinary action either by the FRC or by the relevant professional body;
 - Inviting the Monitoring Committee to proceed in accordance with their normal procedures governing the monitoring of corporate reports and audits;
 - The publication of a report of findings;
 - A recommendation for an issue to be considered by the relevant part of Codes and Standards division;
 - Referral to another regulatory body; or
 - No further action required.

- The timescale for a supervisory inquiry will depend on the complexity of the relevant issues, the availability of information and clarity of the appropriate next steps. However, it is envisaged that on average a supervisory inquiry should be completed within two months. The time needed should be significantly less, where it is clear that the appropriate outcome is referral for a formal investigation with a view to disciplinary action.

7. Investigations and discipline

Introduction

- The FRC will continue to investigate potential acts of misconduct by accountants, actuaries and accountancy firms where the public interest criteria are met. Currently, the FRC's investigative powers are established through two schemes - the AADB Accountancy Scheme and the AADB Actuarial Scheme. As part of the FRC reform a number of changes to the Schemes will be required.
- Initial changes to the Schemes will be necessary to reflect the revised FRC structure. Thereafter, the FRC will consult on changes designed to make the operation of the Schemes more effective, including:
 - Enhancing the FRC's independence, by removing the requirement that the Participants to the Schemes must agree any amendments to the Schemes, and introducing a requirement to consult those Participants on any proposed amendments;
 - The removal of the need for an investigation to be completed before a decision to terminate an investigation can be made;
 - Enabling cases to be concluded without public hearing
 - Updated guidelines on which cases are for the FRC and which are for the professions to take so that it is not necessary for the FRC to consult before taking a case and an ability to refer cases back to the Participants should they be more appropriate to deal with the matter;
 - Amending the provisions requiring publicising investigations – those cases referred for hearing will continue to be publicised.
 - The role of the Executive Counsel in deciding whether to pursue proceedings; and,
 - The FRC will develop and consult on Sanctions Guidance which it will issue to tribunals.

Governance of investigations

- The FRC will be responsible, on the advice of the CC, for approving amendments to the Schemes including their scope and any guidance on the application of the public interest test.
- The decision to investigate a matter will be made by the CC on the basis of the information accompanying a referral by another regulatory body, or from within the FRC, or following a Supervisory Inquiry together with a recommendation from the executive as to why an investigation is considered necessary. Should the CC require further information to reach an informed decision they may ask the executive to conduct further inquiries.
- The CC will be responsible for
 - Determining whether there should be an investigation;
 - Determining the scope of any investigation;
 - Oversight of progress on cases and budgets generally.
- The conduct of any investigation will be the responsibility of the Executive Counsel⁴ who will provide periodic progress reports to the Case Management Committee (CMC). The CMC will be responsible for approving any changes to the scope of an investigation. The CMC will be required to consult with the CC should changes in scope have a significantly adverse effect on the budget.
- Before making any decision to prosecute, the Executive Counsel will present the case to the CMC for review. The role of the CMC is to provide input and challenge the Executive Counsel when reaching a decision on the adequacy of the evidence.
- Should it be concluded that there is insufficient evidence, the Executive Counsel, having consulted with the CMC, may either decide to terminate the case or to seek further evidence.

⁴ References to the Executive Counsel include an appointed Alternate Executive Counsel.

- Where it is determined that there is evidence available to proceed the Executive Counsel will consult the CMC on whether:
 - it is in the public interest to proceed to a tribunal hearing. Following such consultation, the Executive Counsel will decide whether to prosecute; or
 - it would be appropriate to consider early resolution of the matter by inviting the relevant member to agree to particular disciplinary sanction without a public tribunal hearing.
- Once a decision to prosecute has been made, the Convenor will appoint a Tribunal to hear the case.
- The Tribunal will comprise a legally qualified Chair and further members, one of whom will be lay and the other a former practising accountant or actuary depending on the matters in issue.
- The Tribunal will hear evidence, decide the case and any disciplinary sanction, if appropriate. The Respondent will have a right of appeal against any determination of misconduct and/or sanction by the Tribunal.
- The conclusion of all disciplinary cases will be published, irrespective of whether a disciplinary sanction has been imposed following a public hearing.

Appendix – Future roles and responsibilities

Introduction

Based on the governance procedures described above (which are based on legislative changes that are subject to debate and approval by Parliament), the FRC Board and its Committees and Sub-Committees will as major elements of their responsibilities:

FRC Board

- Determine the FRC strategy, annual plan and budget
- Make appointments to the FRC Board and its Committees
- Determine the terms of reference of Board Committees and delegate authority to those Committees as appropriate
- Assess the effectiveness of the Board and its main committees
- Report annually to the Secretary of State on the exercise of the FRC's powers
- Approve any agreements, working arrangements or memoranda of understanding with other public authorities relevant to the discharge of any of the responsibilities or functions of the FRC
- Issue and maintain codes and/or standards with the benefit of advice from the CSC or the appropriate Council;
- Approve any guidance and international thought leadership and policy papers where appropriate;
- Review significant issues of public interest
- Decide to recognise, refuse recognition or revoke recognition of an RSB or RQB;
- Apply to Court for an order requiring a RSB or RQB to fulfil its statutory responsibilities;
- Direct an RSB or RQB to take steps to fulfil its statutory responsibilities
- Decide to impose a penalty on a RSB or RQB where it has failed to fulfil its statutory responsibilities;

- Apply to Court for an order requiring an AG to fulfil his statutory responsibilities;
- Approve the removal of a third country auditor from the register

Executive Committee

- Make recommendations on the strategic direction of the FRC to the Board
- Provide day to day oversight over the work of the FRC, operational policies and protection of the FRC reputation
- Advise the FRC Board on the budget, business plan, Board agenda and management of the organisation
- Advise the FRC Board and the CSC on requirements to establish new advisory groups to deal with specific issues
- Be a forum for debating and resolving issues within and across the Codes and Standards and Conduct divisions
- Be a forum to develop a joined up view on cross divisional topics
- Have oversight of papers going to the FRC Board.

Codes and Standards Committee

- Appoint the Councils
- Oversee the work of the Councils in accordance with the strategic direction provided by the FRC Board;
- Ensure that Codes and Standards are developed in an open and transparent manner with the full involvement of market participants;
- Monitor international developments to ensure that UK input into international standard setting bodies is both appropriate and effective;
- Provide input to the FRC Board on its plan, having taken the advice of the Councils;
- Advise the FRC Board on corporate governance matters, including proposed changes to the UK Corporate Governance Code and the Stewardship Code
- Assess the risks to the quality of corporate reporting in the UK and approve the adequacy of actions to mitigate those risks;
- Propose policy positions to the FRC on matters where the FRC seeks to influence other standard setters; and
- Oversee the research programme of the FRC in relation to codes and standards.

Conduct Committee

- Approve detailed operating plans governing the FRC's conduct activity;
- Oversee the FRC's conduct activities;
- Assess the risks to the quality of corporate reporting in the UK and approve the adequacy of actions to mitigate those risks;
- Apply to court in respect of defective accounts or reports;
- Advise the FRC Board on the exercise of its statutory powers in relation to the oversight of the audit profession, including on the recognition of Recognised

Supervisory Bodies and Recognised Qualifying Bodies and directions and penalties on those bodies;

- Advise the FRC Board on the approach to be taken to non-statutory oversight of the accountancy and actuarial professions;
- Decide whether to launch a supervisory inquiry and what, if any, action to be taken on its conclusion;
- Decide whether to undertake a disciplinary investigation and its scope, and thereafter have general oversight of cases and budgets;
- Approve plans for a thematic study and the publication of any findings from such a study; and
- Advise the FRC Board on the publication of annual public reports on the FRC's conduct activity

The Monitoring Committee

The Monitoring Committee will:

- Ensure a consistent approach to the review of corporate reporting and statutory audit;
- Agree the inspection review grade for individual audit engagements;
- Approve a letter summarising the key findings from a review of an individual audit engagement;
- Agree a public report on an individual firm in relation to audit quality;
- Determine a condition or sanction for acceptance by an auditor or audit firm;
- Where such a condition or sanction is not accepted by the auditor or audit firm, refer the matter to an independent tribunal;
- Require the RSB to implement any condition or sanction accepted by an auditor or audit firm or determined by the independent tribunal;
- Appoint a FRR Group;

- Refer a matter to the CC with a view to an investigation leading to possible disciplinary action.

The Case Management Committee

The Case Management Committee will:

- Review progress on individual cases;
- Approve any changes to the scope of an investigation including early termination;
- Consult with the CC where changes in the scope of an investigation have a significant adverse effect on the budget;
- Provide input and challenge on the adequacy of the evidence to assist the Executive Counsel to reach a decision on where, in the public interest, to proceed to prosecute a case before a tribunal.

The Councils

The Accounting Council, Audit and Assurance Council and Actuarial Council, in their respective areas of expertise, and the CSC in relation to corporate governance matters, will:

- Provide strategic input and thought leadership, both in their area of expertise and the work-plan of the FRC as a whole. This will involve “horizon-scanning” and consulting with practitioners or users;
- Consider and advise the FRC Board upon draft codes and standards (or amendments thereto) to ensure that a high quality, effective and proportionate approach is taken;
- Consider and comment on proposed developments in relation to international codes and standards and regulations; and
- Consider and advise on research proposals and other initiatives undertaken to inform the FRC on matters material to its remit and any resultant publications.