

FRAMEWORK DOCUMENT

Between

Department for Business, Energy and Industrial Strategy

And

The Financial Reporting Council

11th of May 2022



Department for
Business, Energy
& Industrial Strategy

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INTRODUCTION

- 1.1 This document has been drawn up by the Department for Business, Energy and Industrial Strategy (BEIS) in consultation with the Financial Reporting Council (FRC). It sets out the broad framework within which the FRC will operate.
- 1.2 This document does not confer any legal powers or responsibilities. It is signed and dated by BEIS and the FRC. Copies of the document have been placed in the Libraries of both Houses of Parliament and made available to members of the public on the FRC's website.
- 1.3 This document will be reviewed formally at least once every three years and periodically where certain events trigger a review, such as following a significant change in government policy relating to the FRC's business or following a change in senior leadership.

PURPOSE OF THE FRC

- 1.4 The purpose of the FRC is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. It does this by:
 - setting the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work;
 - monitoring and taking action to promote the quality of corporate reporting;
 - operating independent enforcement arrangements for accountants and actuaries; and
 - as the competent authority for statutory audit in the UK, setting auditing and ethical standards, monitoring and enforcing audit quality and oversight of statutory audit regulation in the UK.
- 1.5 The FRC's regulatory roles and responsibilities, and corresponding statutory and non-statutory sources, are set out in Appendix 1.
- 1.6 The FRC is undergoing a combined transformation programme that will deliver recommendations across three reviews, and transition the FRC toward becoming the Audit, Reporting and Governance Authority (ARGA).
 - Independent Review of the Financial Reporting Council, led by Sir John Kingman - report published in December 2018.
 - Competition and Markets Authority market study into competition in the audit market - report published in April 2019.

- Independent review into the quality and effectiveness of audit, led by Sir Donald Brydon - report published in December 2019.

1.7 ARGA will be a new regulator with statutory powers and objectives. While primary legislation is required to create ARGA and give it formal powers, the FRC will continue to work with BEIS to take forward recommendations which do not require legislative change.

GOVERNANCE AND ACCOUNTABILITY

Classification

1.8 The FRC was established in 1990 as a company limited by guarantee, which it remains today. Over time, the FRC's remit was extended and it took on a number of other regulatory responsibilities. The FRC is now classified as central government by the Office for National Statistics, in view of the various statutory functions it fulfils and the powers delegated to it by the Secretary of State.

1.9 The FRC has not been administratively classified by Cabinet Office. Given the intention to replace the FRC with the new regulator ARGA when Parliamentary time allows, it will not undergo classification. In the meantime, the FRC will look to operate in line with the principles of good corporate governance for non-departmental public bodies (NDPB). As a central government body and independent regulator, the FRC has a role in the process of national government but is not part of BEIS. The FRC operates at arm's length from ministers, with a minister accountable to Parliament for its business. The FRC is expected to adhere to Cabinet Office and HM Treasury controls. The expectation is that ARGA will be established as an NDPB.

Ministerial responsibility

1.10 The Secretary of State for Business, Energy and Industrial Strategy will account for the FRC's business in Parliament. The Secretary of State may delegate responsibility for the department's relationship with the FRC to the minister with responsibility for corporate governance and audit.

Responsibilities of the BEIS Principal Accounting Officer (PAO)

1.11 The PAO of BEIS is accountable to Parliament for the issue of any grant-in-aid to the FRC. The PAO is also responsible for advising the responsible Minister on:

- an appropriate framework of objectives and targets for the FRC in the light of the department's wider strategic aims and priorities;
- any relevant budgetary issues in relation to the FRC in the light of the department's overall public expenditure priorities; and
- how well the FRC is achieving its strategic objectives and whether it is delivering value for money.

1.12 The PAO is also responsible for ensuring that arrangements are in place to:

- monitor the FRC's activities;
- address any significant problems in the FRC, making such interventions as are judged necessary;
- periodically carry out an assessment of the risks both to the department and the FRC's objectives and activities;
- inform the FRC of relevant Government policy in a timely manner; and
- bring any concerns about the activities of the FRC to the FRC Board and as appropriate to the BEIS departmental board, requiring explanations and assurances that appropriate action has been taken.

Responsibilities of the FRC Accounting Officer (AO)

1.13 The PAO has designated the Chief Executive of the FRC as the Accounting Officer (AO) for the FRC. The AO is personally responsible for safeguarding the public funds for which they have charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of the FRC. In addition, they should ensure that the FRC as a whole is run on the basis of the standards - in terms of governance, decision-making and financial management - that are set out in Box 3.1 of Managing Public Money.

Responsibilities for accounting to Parliament

1.14 The AO's accountabilities include:

- personally signing the accounts and ensuring that proper records are kept relating to the accounts and that the accounts are properly prepared and presented;
- preparing and personally signing a governance statement covering corporate governance, risk management and assurance for inclusion in the annual report and accounts;
- ensuring that effective procedures for handling complaints about the FRC are established and made widely known within the FRC;

- acting in accordance with the terms of this document, Managing Public Money and other instructions and guidance issued from time to time by the Department, HMT and the Cabinet Office;
- giving evidence (normally with the PAO) when summoned before the Public Accounts Committee on the FRC's stewardship of public funds, or to other Parliamentary committees.

Responsibilities to BEIS

1.15 The AO's particular responsibilities to BEIS include:

- establishing, in consultation with the department, the FRC's corporate and business plans in the light of the department's wider strategic aims and mutually agreed priorities;
- informing BEIS of progress in helping to further departmental policy objectives applicable to the FRC's role and mission and in demonstrating how FRC resources are being used in support of those objectives; and
- ensuring that timely forecasts and monitoring information on performance and finance are provided to the department; that the department is notified promptly if over or under spends are likely and that corrective action is taken; and that any significant problems whether financial or otherwise, and whether detected by internal audit or by other means, are notified to the department in a timely fashion.

Responsibilities to the FRC Board

1.16 The AO is also responsible for:

- advising the board on the discharge of the FRC's responsibilities as set out in this document, in the founding legislation and in any other relevant instructions and guidance that may be issued from time to time;
- advising the board on the FRC's performance compared with its aims and objectives;
- ensuring that financial considerations are taken fully into account by the board at all stages in reaching and executing its decisions, and that financial appraisal techniques are followed;
- taking care that their personal legal responsibilities do not conflict with their duties as a board member. In particular, they should vote against any proposal which appears to cause such a conflict; it is not sufficient to abstain;
- taking action as set out in paragraph 3.8.6 of Managing Public Money if the board, or its Chair, is contemplating a course of action involving a transaction which the Chief Executive considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration, efficiency or effectiveness, is of questionable feasibility, or is unethical.

Responsibilities of the FRC Chair

1.17 The Chair is responsible to the Secretary of State for ensuring that the FRC's policies and actions align with Government policy and that the FRC's affairs are conducted with probity. Communications between the FRC Board and the Secretary of State should normally be through the Chair.

1.18 In addition, the Chair has the following leadership responsibilities:

- considering the remit letter issued by Government
- formulating the board's strategy;
- ensuring that the board, in reaching decisions, takes proper account of guidance provided by the responsible Minister or the department;
- promoting the efficient and effective use of staff and other resources;
- delivering high standards of regularity and propriety; and
- representing the board's views to the general public.

1.19 The Chair also has an obligation to ensure that:

- the work of the board and its members are reviewed and are working effectively;
- the board has a balance of skills appropriate to directing the FRC's business, as set out in the UK Corporate Governance Code;
- board members are fully briefed on terms of appointment, duties, rights and responsibilities;
- they, together with the other board members, receive appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice;
- the Secretary of State is advised of the FRC's needs when board vacancies arise;
- they assess the performance of individual board members when being considered for re-appointment;
- there is a board operating framework (the Governance Handbook) in place setting out the role and responsibilities of the board consistent with the UK Corporate Governance Code; and
- that there is a code of practice for board members in place, consistent with the Cabinet Office Code of Conduct for Board Members of Public Bodies.

Responsibilities of the FRC Board

1.20 The board will consist of:

- the Chair

- the Chief Executive
- non-executive directors appointed in accordance with Article 5 of the FRC's Articles of Association

The chairs of any committees will be selected from the non-executive board membership.

1.21 The board is specifically responsible for:

- establishing and taking forward the strategic aims and objectives of the FRC consistent with its overall strategic direction;
- ensuring that the Secretary of State is kept informed of any changes which are likely to impact on the strategic direction of the FRC or on the attainability of its targets, and determining the steps needed to deal with such changes;
- ensuring that any statutory or administrative requirements for the use of public funds are complied with; that the board operates within the limits of its statutory authority and any delegated authority agreed with BEIS, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Board takes into account guidance issued by BEIS as the sponsor department;
- ensuring that the board receives and reviews regular financial information concerning the management of the FRC; is informed in a timely manner about any concerns about the activities of the FRC; and provides positive assurance to the department that appropriate action has been taken on such concerns;
- demonstrating high standards of corporate governance at all times and ensuring that effective arrangements are in place to provide them with assurance on risk management, governance and internal control. The board should use the independent audit committee, chaired by an independent non-executive member to support them in this role;
- Subject to the appointment by the Secretary of State under Article 5.1, agree the terms of employment of the Chief Executive, and set performance objectives and remuneration terms linked to these objectives for the Chief Executive which give due weight to the proper management and use and utilisation of public resources.

Responsibilities of individual board members

1.22 Individual board members should:

- comply at all times with the Cabinet Office Code of Conduct for Board Members of Public Bodies, the FRC's Code of Conduct, and with the rules relating to the use of public funds and to conflicts of interest;

- not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
- comply with the board's rules on the acceptance of gifts and hospitality, and of business appointments; and
- act in good faith and in the best interests of the FRC.

Appointments to the FRC Board

1.23 The Chair and non-executive board members of the FRC are appointed by the Secretary of State for BEIS in line with the [Governance Code on Public Appointments](#). There is a strong presumption that no individual should serve more than two terms or serve in any one post for more than ten years.

1.24 The Chief Executive is appointed by the Secretary of State, in consultation with the FRC Chair.

1.25 All such appointments should have regard to the principle that appointments should reflect the diversity of the society in which we live, and appointments should be made taking account of the need to appoint boards which include a balance of skills and backgrounds

Annual report and accounts

1.26 The FRC board must publish an annual report of its activities together with its audited accounts after the end of each financial year, containing such information as the Secretary of State may direct.

1.27 A draft of the report should be submitted to the Department, in advance of the proposed publication date, according to a timeframe agreed with the FRC sponsorship team within BEIS.

1.28 The annual report must:

- cover any corporate, subsidiary or joint ventures under the FRC's control;
- comply with any specific directions issued by the department and the requirements of company law. It should include information on performance against key financial targets;
- outline the FRC's main activities and performance during the financial year, including an assessment of how its achievements compare against its strategic objectives, KPIs and the FRC Strategy for that period; and
- include a governance statement personally signed by the FRC CEO as accounting officer.

1.29 BEIS is required to publish consolidated accounts. This requires those bodies within the Departmental boundary and included in the consolidation designation order to provide, on a timely basis and to a good standard, draft accounts and account adjustments, via an electronic submission in accordance with the agreed timetable and format. The FRC Finance Director is responsible for ensuring that such information is accurate and provided on time. The completed data will need to be signed off by the FRC Finance Director prior to being submitted to BEIS Finance. BEIS Finance will communicate the specific requirements, format and timetable for this annually and with good notice.

1.30 The report and accounts shall be laid in Parliament and made available on the FRC's website, in accordance with the Generally Accepted Accounting Practice in the UK.

Other statutory reports

1.31 As the independent supervisor of Auditors General, the FRC must report annually to the Secretary of State on the discharge of its functions and a summary of the results of any inspections, as set out in s1231 of the Companies Act 2006.

1.32 The FRC must report annually to the Secretary of State, as set out in s1252(10) of, and paragraph 10(3) of Schedule 13 to, the Companies Act 2006, on:

- the discharge of the functions transferred to it with respect to statutory auditors, and
- such other matters as the Secretary of State may by order require.

Internal audit

1.33 The FRC shall:

- establish and maintain arrangements for internal audit in accordance with the principles set out in Treasury's Public Sector Internal Audit Standards (PSIAS) (<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>) and ensure that the BEIS internal audit team have access to all relevant records.
- maintain an Audit Committee of its board in accordance with good practice in corporate governance;
- forward the audit strategy, periodic audit plans and annual audit report, including the FRC Head of Internal Audit Opinion on Risk Management, Control and Governance, as soon as possible to the sponsor department; and

- keep records of, and prepare and forward to the department an annual report on fraud and theft suffered by the FRC and notify the sponsor department of any unusual or major incidents as soon as possible.

1.34 The FRC's internal audit service is provided by the Government Internal Audit Agency.

External audit

1.35 The National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) is the appointed auditor for the FRC. The C&AG passes the audited accounts to the Secretary of State who will lay the accounts together with the C&AG's report before parliament. As the body responsible for regulating statutory auditors in the UK, the FRC has to consider threats to auditor independence, which in particular may arise from its monitoring and review of Public Interest Entity (PIE) audits. This risk will be addressed by appointing an engagement partner for the audit of the FRC's financial statements who has no PIE clients, and is therefore not subject to direct monitoring and review by the FRC.

1.36 The C&AG:

- will consult the department and FRC on who – the NAO or a commercial auditor – shall undertake the audit on his behalf, though the final decision rests with the C&AG;
- has a statutory right of access to relevant documents, including by virtue of section 25(8) of the Government Resources and Accounts Act 2000, held by another party in receipt of payments or grants from the FRC;
- will share with the sponsor department information identified during the audit process and the audit report (together with any other outputs) at the end of the audit, in particular on issues impacting on the Department's responsibilities in relation to financial systems within the FRC;
- will, where asked, provide departments and other relevant bodies with Regulatory Compliance Reports and other similar reports which departments may request at the commencement of the audit and which are compatible with the independent auditor's role.

1.37 The C&AG may carry out examinations into the economy, efficiency and effectiveness with which the FRC has used its resources in discharging its functions. For the purpose of these examinations the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, FRC shall provide, in conditions to grants and contracts, for the C&AG to exercise such access to documents held by grant recipients and contractors and sub-contractors as may be required for these examinations; and shall use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by other bodies.

MANAGEMENT AND FINANCIAL RESPONSIBILITIES

Managing Public Money and other government wide corporate guidance and instructions

1.38 Unless agreed by the Department and - as necessary, HM Treasury - the FRC shall follow the principles, rules, guidance and advice in Managing Public Money, referring any difficulties or potential bids for exceptions to Market Frameworks Group Finance Team in BEIS in the first instance. A list of guidance and instructions with which the FRC should comply is in Appendix 2.

1.39 Once the budget has been approved by BEIS, the FRC shall have authority to incur expenditure approved in the budget without further reference to the department, on the following conditions:

- the FRC shall comply with the delegations set out in Appendix 3. These delegations shall not be altered without the prior agreement of BEIS;
- the FRC shall comply with Managing Public Money regarding novel, contentious or repercussive proposals;
- inclusion of any planned and approved expenditure in the budget shall not remove the need to seek formal departmental approval where any proposed expenditure is outside the delegated limits or is for initiatives outside the scope of the annual plan and budget; and
- the FRC shall provide BEIS with such information about its operations, performance, individual projects or other expenditure as the Department may reasonably require.

Delegated authorities

The FRC's delegated authorities are set out in Appendix 3. The FRC shall obtain the Department's prior written approval before:

- entering into any undertaking to incur any expenditure that falls outside the delegations or which is not provided for in the FRC's annual budget;
- incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications;
- making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Department;
- making any change of policy or practice which has wider financial implications that might prove repercussive or which might significantly affect the future level of resources required; or
- carrying out policies that go against the principles, rules, guidance and advice in Managing Public Money.

Corporate and business plans

1.40 The FRC will maintain a three year strategy setting out its key objectives in pursuit of its mission and aligned with Government priorities. It will agree the strategy with BEIS, and consult publicly through a strategy document approved by BEIS.

1.41 BEIS will agree the FRC's annual budget. BEIS and the FRC will undertake an annual public consultation on its plan, budget and funding requirement for the coming year. Before the public consultation, the FRC will consult with the Department on the issues to be addressed in the draft plan and budget, and the timetable for the consultation and for finalising the plan and budget.

1.42 The plan will reflect the FRC's statutory and other responsibilities and demonstrate how the FRC contributes to the achievement of the department's priorities. The following key matters should be included:

- key objectives and associated key performance targets, and the strategy for achieving those objectives;
- the resources allocated to achieve specific objectives;
- key non-financial performance targets;
- a review of performance in the preceding financial year, together with comparable outturns for the previous 2-5 years, and an estimate of performance in the current year;
- alternative scenarios and an assessment of the risk factors that might significantly affect the execution of the plan but which cannot be accurately forecast; and
- other matters as agreed between the department and the FRC.

1.43 The budget will include expenditure allocated to each of the FRC's main functions, expenditure by type (including staff, IT and facilities), and a profile of expected receipts under each of the FRC's funding streams and of draw-down of any departmental funding and/or other income over the year.

1.44 The budget will include a review of performance in the preceding financial year, and an estimate of performance in the current year.

Reporting to BEIS and Information Sharing

1.45 The FRC shall provide the sponsor department with access to records and personnel, and such information about its operations, performance, individual projects or other expenditure as the sponsor department may reasonably require. This includes, for example, sponsorship audits and operational investigations.

1.46 The department and HM Treasury may request the sharing of data held by FRC in such a manner as set out in central guidance except insofar as it is prohibited by law.

1.47 The FRC shall operate management, information and accounting systems that enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in the corporate and business plans. The FRC shall provide the Department with the information that it requests and that will enable the Department satisfactorily to monitor the FRC's performance, including:

- the FRC's cash management;
- its draw-down of any grant-in-aid;
- financial risks and opportunities where appropriate;
- forecast and actual outturn by resource headings;
- other data required for the Online System for Central Accounting and Reporting (OSCAR);
- operational and reputational risks;
- achievement of KPIs; and
- FRC's progress with its transformation into ARGA

1.48 Officials in the Market Frameworks Group Finance Business Partner Team in BEIS will liaise regularly with the FRC to review financial performance against plans, achievement against targets and expenditure against its budget. The BEIS Finance Team will also take the opportunity to explain wider policy developments that might have an impact on the FRC.

1.49 The FRC shall provide the department with full details of all agreements where the FRC or its successors have a right to share in the financial gains of developers. It should also pass to the department details of any other forms of claw-back due to the FRC.

FRC funding

1.50 The FRC is currently funded by market participants subject to, having regard to, or benefiting from FRC regulation.

1.51 The audit professional bodies are required to contribute under the provisions of the Companies Act 2006. With the agreement of HM Government, the remaining funding is secured through voluntary levies on other groups. In collecting these levies, the FRC provides guidance that the arrangements are non-statutory. The guidance includes a statement that should this non-statutory approach prove unsustainable, the FRC would formally request that the Secretary of State make regulations for the FRC to levy its funding on a statutory basis under Section 17 of the Companies (Audit, Investigations and Community Enterprise) Act 2004.

1.52 BEIS provide assurance that if the FRC's voluntary funding from external sources falls sufficiently for BEIS to have to consider making legislation to activate the statutory levy under section 17,

BEIS will make such a grant to cover FRC costs as is sufficient to meet the preconditions in those levy raising powers.

Grant-in-aid and any ring-fenced grants

- 1.53 In the event that any grant-in-aid is provided by the Department, for the year in question it will be voted in the Department's Supply Estimate and be subject to Parliamentary control.
- 1.54 Any such grant-in-aid would normally be paid in monthly instalments on the basis of written applications showing evidence of need. The FRC will comply with the general principle, that there is no payment in advance of need. Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds shall be kept to a minimum level consistent with the efficient operation of the FRC. Grant-in-aid not drawn down by the end of the financial year shall lapse. Subject to approval by Parliament of the relevant Estimates provision, where grant-in-aid is delayed to avoid excess cash balances at the year-end the department will make available in the next financial year any such grant-in-aid that is required to meet any liabilities at the year end, such as creditors.
- 1.55 In the event that the Department provides the FRC separate grants for specific (ring-fenced) purposes, it will issue the grant as and when the FRC needs it on the basis of a written request. The FRC would provide evidence that the grant was used for the purposes authorised by the Department. The FRC shall not have uncommitted grant funds in hand, nor carry grant funds over to another financial year.

Risk management

- 1.56 The FRC shall ensure that the risks that it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and develop a risk management strategy, in accordance with the HMT guidance Management of Risk: Principles and Concepts (<https://www.gov.uk/government/publications/orange-book>).
- 1.57 The FRC should adopt and implement policies and practices to safeguard itself against fraud and theft, in line with the Treasury's guidance on tackling fraud (http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/managing_the_risk_fraud_guide_for_managers.pdf.pdf). It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract.

Counter Fraud

- 1.58 The FRC should adopt and implement policies and practices to safeguard itself against fraud and theft, in line with guidance as issued by the Counter Fraud Function and in compliance with the

procedures and considerations as set out in Managing Public Money Annex 4.9. It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter a contract.

1.59 The FRC should keep records of and prepare and forward to the department an annual report on fraud and theft suffered by the FRC and notify the sponsor department of any unusual or major incidents as soon as possible. The FRC should also report identified loss from fraud, bribery, corruption and error, alongside associated recoveries and prevented losses, to the counter fraud centre of expertise in line with the agreed government definitions as set out in Counter Fraud Functional Standard.¹

FRC staff

Broad responsibilities for staff

1.60 The FRC is responsible for the recruitment, retention and the terms and conditions of its staff within the arrangements approved by the responsible Minister and HMT.

1.61 The FRC's responsibilities toward its staff are to ensure that:

- the rules for recruitment and management of staff create an inclusive culture in which diversity is fully valued; appointment and advancement is based on merit: there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age;
- the level and structure of its staffing, including grading and staff numbers, are appropriate to its functions and the requirements of economy, efficiency and effectiveness;
- the performance of its staff at all levels is satisfactorily appraised and the FRC performance measurement systems are reviewed from time to time;
- its staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the FRC's objectives;
- proper consultation with staff takes place on key issues affecting them;
- adequate grievance and disciplinary procedures are in place;
- whistle-blowing procedures consistent with the Public Interest Disclosure Act are in place; and
- a code of conduct for staff is in place.

1.62 The FRC shall ensure that the creation of any additional posts does not incur forward commitments that will exceed its ability to pay for them.

Pay and conditions

¹<https://www.gov.uk/government/publications/government-functional-standard-govs-013-counter-fraud>

- 1.63 The FRC's staff are subject to levels of remuneration and terms and conditions of service (including pensions) within the general pay structure approved by the Department and HMT.
- 1.64 Staff terms and conditions should be set out in an Employee Handbook, which should be provided to the department together with subsequent amendments.
- 1.65 The FRC shall operate a performance-related pay scheme that shall form part of the annual aggregate pay budget approved by the department, or the general pay structure approved by the department and the Treasury, whichever is applicable.
- 1.66 The travel expenses of board members shall be tied to the rates allowed to senior staff. Reasonable actual costs shall be reimbursed.
- 1.67 The FRC shall comply with the Fixed-Term Employees (Prevention of Less Favourable Treatment) Regulations.

Pensions, redundancy and compensation

- 1.68 FRC staff shall be eligible for a pension. The FRC will comply with the requirements of the Pensions Act 2008.
- 1.69 Proposals on severance must comply with the rules in chapter 4 of Managing Public Money.

OTHER MATTERS

Contact and engagement

1.70 BEIS operates a sponsorship model which aligns with the principles and standards of the Partnerships between departments and arm's length bodies: code of good practice. Within this model there are four key points of engagement with the Department:

- Ministerial champion (responsible Minister)
- Policy champion (responsible Director)
- Senior sponsor (Deputy Director)
- Corporate governance sponsor (senior post with the BEIS Partnerships Team)

1.71 The Deputy Director for Business Frameworks, as the senior sponsor, is the primary contact for the FRC within the Department. They are the main source of advice to the responsible Minister on the discharge of their responsibilities in respect of the FRC. They also support the PAO on their responsibilities toward the FRC.

1.72 In terms of frequency of engagement:

- regular contact will take place between policy leads in BEIS and the FRC;
- regular contact will take place between BEIS officials and the FRC in support of delivering recommendations under the combined FRC Transformation Programme.
- monthly meetings will take place between the Director for Business Frameworks and the FRC CEO; and
- the responsible minister will meet with the FRC Chair once a year.

Communications and announcements

1.73 The FRC will provide BEIS with advance sight of announcements and work with the BEIS communications team where appropriate.

Dispute resolution

1.74 BEIS and the FRC will take a pragmatic and issue based approach to dispute resolution.

1.75 This framework and other governance documents and guidance should be used as a reference point for agreement between the two parties. A resolution should be agreed upon in a timely manner and in such a way that any potential disruption to on-going projects or operations is limited as much as possible.

1.76 The parties should endeavour to identify emerging issues as early as possible, and to communicate these to each other through the most appropriate route of engagement. This could include sponsorship meetings for more day-to-day issues, or direct conversations between the senior management for more urgent matters. The parties will ensure they come to a shared understanding of risk and take action accordingly.

1.77 Both parties will agree clear routes of escalation for addressing both routine issues and urgent matters arising. In the first instance, issues should be escalated at working level. Where this does not resolve the dispute, the issue should be escalated in BEIS to the senior policy sponsor, and subsequently to the Director General for the Market Frameworks Group. Following that, the issue will be referred to the Principal Accounting Officer (PAO), who may appoint a neutral third party to review the dispute and act as a mediator between the parties. In there is still no resolution, the responsible Minister will be engaged. Within the FRC, the issue should be escalated within the organisation at working level, then to the relevant director and ultimately to the Accounting Officer and/or the Chair (as appropriate).

1.78 Once the dispute is resolved, both parties should endeavour to learn the lessons from this process. Audit trails on decision-making will be kept and maintained for transparency.

Winding-up arrangements for the FRC

1.79 The FRC was last reviewed in 2018. Following that review, the Government intends to replace the FRC with a new statutory body, the Audit Reform and Governance Authority (ARGA).

1.80 When the FRC is wound-up, BEIS shall put in place arrangements to ensure that this is done in an orderly way. In particular, it will ensure that the assets and liabilities of the FRC are passed to ARGA as the successor organisation and accounted for properly. To this end, the Department shall:

- ensure that procedures are in place in the FRC to gain independent assurance on key transactions, financial commitments, cash flows and other information needed to handle the wind-up effectively and to maintain the momentum of work inherited by ARGA as the residuary body;
- specify the basis for the valuation and accounting treatment of the FRC's assets and liabilities;
- ensure that arrangements are in place to prepare closing accounts and pass to the C&AG for external audit, and that funds are in place to pay for such audits. It shall be for the C&AG to lay the final accounts in Parliament, together with their report on the accounts; and
- the Accounting Officer of ARGA should sign the closing accounts.

LIST OF APPENDICES

Appendix 1 - FRC roles and responsibilities

Appendix 2 - List of government-wide corporate guidance instructions (attached)

Appendix 3 – BEIS delegated authority

Signed



Date: 12 May 2022

Eoin Parker

Director of Business Frameworks

(On behalf of BEIS)

Signed



Date: 12 May 2022

Sir Jon Thompson

Chief Executive

(On behalf of the FRC)

Appendix 1: FRC roles and responsibilities

Function	Responsibility	Powers
UK Statutory Audit¹		
Public oversight of statutory auditors under the Statutory Audit and Third Country Auditor Regulations 2017 (SATCAR 2017).	FRC	Regulation 3(a) SATCAR 2017.
The determination and manner of application of technical, ethical and other standards	FRC	Regulation 3(b)-(d) SATCAR 2017 <i>Relevant FRC Procedure: Codes & Standards Procedure:</i> https://www.frc.org.uk/About-the-FRC/Procedures/FRC-Codes-and-Standards-procedures.aspx
The application of the above standards	FRC **	Regulation 3(e) SATCAR 2017
Setting criteria for determining the eligibility of persons for appointment as statutory auditors (eligibility criteria and approved persons)	FRC	Regulation 3(f) SATCAR 2017 <i>Relevant FRC Criteria: FRC's Eligibility Criteria for Statutory Auditors:</i> https://www.frc.org.uk/Our-Work/Publications/Professional-Oversight/Eligibility-Criteria-June-2016.pdf
Application of eligibility criteria, registration of approved persons, keeping the register and making it available for inspection	FRC**	Regulations 3(g)-(i) SATCAR 2017
Ensuring approved persons take part in appropriate programmes of continuing education	FRC**	Regulation 3(j) SATCAR 2017
Monitoring of statutory auditors and audit work by means of inspections	FRC**	Regulation 3(k) SATCAR 2017
Investigations of statutory auditors and audit work; and imposing and enforcing sanctions	FRC**	Regulations 3(l)-(m) SATCAR 2017 <i>Relevant procedure: Audit Enforcement Procedure:</i> https://www.frc.org.uk/Our-Work/Publications/Professional-Discipline/Audit-Enforcement-Procedures.pdf

¹ The FRC has been designated the Competent Authority for statutory audit in the UK by Regulation 2 SATCAR 2017.

** Functions which the Competent Authority remains responsible for but usually delegates the performance of some or all of that function to the Recognised Supervisory Bodies under Delegation Agreements in force from time to time, available at <https://www.frc.org.uk/Our-Work/Audit/Professional-oversight/Oversight-of-Audit/delegation-agreements.aspx>

Function	Responsibility	Powers
Recognition of supervisory and qualifying bodies		
Recognition in the capacity of Delegate of the Secretary of State of the Recognised Supervisory and Qualifying Bodies	FRC	The Secretary of State has delegated to the FRC, in accordance with section 1252 Companies Act 2006, his powers under Part 42 of the 2006 Act, by the Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012 (Delegation Order).
Third Country Audit		
Registration of persons approved to audit non-EU registered companies that have issued securities admitted to trading on EU regulated markets (Third Country Entities and Third Country Auditor) and keeping of the Third Country Audit Register	FRC	S1239 Companies Act 2006 and Regulation 5, 6, 9 Statutory Auditor and Third Country Audit Regulations 2013 (SATCAR 2013) <i>Relevant procedures: FRC Third Country Register Terms & Conditions: https://www.frc.org.uk/Our-Work/Audit/Professional-oversight/Third-country-auditors/Register-of-third-country-audit-entities-(terms-an.aspx</i>
Calls for notification or information from Third Country Auditors, issuing Compliance Orders and removal from the Third Country Audit Register	FRC	ss1243-1246 Companies Act 2006 and Regulation 12 SATCAR 2013. Relevant procedure: FRC Third Country Auditor Register Procedures https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Professional-oversight/Third-country-auditors/De-Registration-Procedures.aspx
Performance, monitoring and enforcement of third country audit functions	FRC	Reg 11 SATCAR 2016
Local Audit		
Oversight of the regulation by recognised supervisory bodies of auditors of local public bodies	FRC	Local Audit (Delegation of Functions) and Statutory Audit (Delegation of Functions) Order 2014 (Local Audit Order 2014)
Making regulations on major local bodies transparency reports	FRC	Local Audit Order 2014 <i>Relevant regulations: Local Auditors Transparency Instrument 2015: https://www.frc.org.uk/Our-Work/Publications/Professional-Oversight/Local-Auditors-(Transparency)-Instrument-2015.pdf</i>
Making Regulations on the keeping of the Register of Local Public Auditors	FRC	Local Audit Order 2014 <i>Relevant Regulations: Local Auditors Regulation Instrument 2015: https://www.frc.org.uk/Our-Work/Publications/Professional-Oversight/Local-Auditors-(Registration)-Instrument-2015.pdf</i>

Function	Responsibility	Powers
Giving statutory guidance to recognised supervisory bodies on approval of Key Audit Partners	FRC	Local Audit Order 2014 <i>Relevant Guidance:</i> https://www.frc.org.uk/Our-Work/Publications/Professional-Oversight/Guidance-to-Recognised-Supervisory-Bodies-on-the-a.pdf
Monitoring the quality of major local audits ²	FRC	Schedule 5 Local Audit and Accountability Act 2014
Determination of sanctions pursuant to failures found during such inspections	FRC	Schedule 5 Local Audit and Accountability Act 2014 <i>Relevant Procedure: Auditor Regulatory Sanctions Procedure:</i> https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Auditor-Regulatory-Sanctions-Procedure-June-2016.pdf
Auditors General		
Independent supervision of Auditors General and disciplinary arrangements	FRC	The Secretary of State has appointed the FRC as the "Independent Supervisor", under section 1228 Companies Act 2006, for the purposes of sections 1229 to 1238 of the 2006 Act. S18 Delegation Order. <i>Relevant procedure: Statement of Arrangements for the Supervision of the Comptroller & Auditor General includes Regulations and Disciplinary Procedure Rules.</i>
Crown Dependency Audit		
Monitoring of audits of entities incorporated in Jersey, Guernsey or the Isle of Man whose securities are traded on a regulated market in the European Economic Area (Crown Dependency Inspections)	FRC	By private, contractual arrangements with the relevant regulatory authorities in the Crown Dependencies. <i>Statement of arrangement and Memorandum of Understanding:</i> https://www.frc.org.uk/FRC-Documents/POB/Signed-statement-of-arrangement-and-MOU.pdf
Determination of sanctions pursuant to failures found during Crown Dependency Inspections	FRC	By private arrangement with the Crown Dependencies <i>Relevant procedure: Crown Dependencies Recognised Auditor Regulatory Sanctions Procedure</i> https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Crown-Dependencies%E2%80%99-Recognised-Auditor-Regulatory.pdf

² From 2018 in respect of financial years ending 31 March 2018.

Function	Responsibility	Powers
Corporate Reporting		
Accounting		
Issuing accounting standards.	FRC	<p>The FRC is the prescribed standard issuing body for the purposes of section 464 Companies Act 2006. Further, accountants are expected to comply with accounting standards in accordance with the relevant accountancy body bye laws.</p> <p><i>Relevant FRC Procedure: Codes & Standards Procedure:</i> http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx</p>
Addressing unsatisfactory or conflicting interpretations of accounting standards.	FRC	<p>ACCA, CIPFA, ICAEW, ICAI, and ICAS (together, forming membership of the Consultative Committee of Accountancy Bodies, also known as CCAB bodies) and CIMA expect their members to observe the consensus reached by the FRC on relevant issues.</p>
Ensuring that the provision of financial information, including directors' reports, by public and large private companies complies with Companies Act requirements.	FRC Conduct Committee	<p>The FRC's Conduct Committee is an authorised body under section 457 Companies Act 2006 for the purposes of section 456 of the 2006 Act.</p> <p><i>Relevant Procedure: Conduct Committee Operating Procedures For Reviewing Corporate Reporting</i> http://frc.org.uk/Our-Work/Publications/FRRP/Operating-procedures.pdf</p>
Monitoring compliance with accounting requirements of listing rules by issuers of listed securities.	FRC Conduct Committee	<p>The FRC's Conduct Committee is the prescribed body under section 14 Companies (Audit, Investigations etc) Act 2004.</p> <p><i>Relevant Procedure: Conduct Committee Operating Procedures For Reviewing Corporate Reporting</i> http://www.frc.org.uk/document-library/corporate-reporting-review/2021/crr-operating-procedures</p>
Providing an independent investigation and discipline scheme for matters relating to accountancy firms or members of the accountancy professional bodies which raise or appear to raise important issues affecting the public interest.	FRC	<p><u>By private arrangement</u> with the CCAB bodies and CIMA, the FRC provides independent investigation and/or disciplinary hearings in respect of misconduct by accountant members / member firms in public interest cases. The bye laws of each of the CCAB bodies and CIMA provide that their members are subject to the accountancy scheme.</p> <p><i>Relevant procedure: Accountancy Scheme</i> http://www.frc.org.uk/Our-Work/Publications/Professional-Discipline/The-Accountancy-Scheme-(Effective-1-July-2013).pdf</p>

Function	Responsibility	Powers
Independent oversight of the regulation of the accountancy profession by the professional accountancy bodies.	FRC	The CCAB bodies and CIMA have given a commitment to consider carefully FRC recommendations and either implement them within a reasonable period or give reasons in writing for not doing so.
Actuarial		
Setting actuarial standards.	FRC	MoU between the FRC and the Actuarial Profession supported by provision within the bye laws and disciplinary schemes of the actuarial bodies requiring its members to comply with the standards set by the FRC. <i>Relevant FRC Procedure: Codes & Standards Procedure:</i> http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx
Providing an independent investigation and discipline scheme for matters relating to members of the actuarial profession which raise or appear to raise important issues affecting the public interest.	FRC	By private arrangement with the Institute and Faculty of Actuaries (IFoA), the FRC provides independent investigation and/or disciplinary hearings in respect of misconduct by actuarial members/member firms in public interest cases. The bye laws of the IFoA provide that their members are subject to the FRC's actuarial scheme. These provisions are supported by the Memorandum of Understanding between the FRC and the IFoA.
Independent oversight of the regulation of the actuarial profession by the professional actuarial bodies.	FRC	Relevant Procedure: Actuarial Scheme MoU between the FRC and the IFoA including a commitment by the IFoA to consider carefully FRC recommendations , implement them within a reasonable period or give reasons in writing for not doing so. <i>Relevant FRC procedure: Actuarial Scheme,</i> https://www.frc.org.uk/document-library/frc/gandl/glt-2021/march-2021/actuarial-scheme-march-21
Corporate Governance		
Monitoring and maintaining the UK Corporate Governance Code and its associated guidance	FRC	Compliance with the Code is voluntary, although the FCA's Listing Rule 12.43A requires companies to report on their compliance with the Code. The Irish Stock Exchange has adopted the Combined Code on Corporate Governance as its corporate governance standard, and its Listing Rules require Irish listed companies to comply or explain with the Code." <i>Relevant FRC Procedure: Codes & Standards Procedure:</i> http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx
Monitoring and maintaining the Stewardship Code and its associated guidance	FRC	Compliance with the Code is voluntary. <i>Relevant FRC Procedure: Codes & Standards Procedure:</i> http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx

Appendix 2: Compliance with government-wide corporate guidance and instructions

The Financial Reporting Council shall comply with the following general legislation, guidance documents and instructions:

- **Corporate Governance**
- this Framework Document;
- Corporate Governance Code for Central Government Departments (relevant to arm's length bodies),
 - <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>;
- Guidance that supports the Corporate Governance Code,
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/609668/PU2076_corporate_governance_guidance.pdf;
- Code of conduct for Board members of Public Bodies,
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/411434/code-of-conduct_tcm6-38901_1.pdf;

- **Financial Management and Reporting**
- Managing Public Money (MPM),
<https://www.gov.uk/government/publications/managing-public-money>;
 - Fees and Charges Guide, Chapter 6 of Managing Public Money,
 - http://www.hm-treasury.gov.uk/d/mpm_ch6.pdf;
- Departmental Banking: A Manual for Government Departments, annex 5.6 of Managing Public Money,
 - http://www.hm-treasury.gov.uk/d/mpm_annex5.7.pdf;
- Government Financial Reporting Manual (FReM) – updated annually,
<https://www.gov.uk/government/publications/government-financial-reporting-manual-2018-to-2019>;
- Relevant Dear Accounting Officer (DAO) letters,
<https://www.gov.uk/government/collections/dao-letters>;
- Production of Accounting Officer System Statements (AOSS),
<https://www.gov.uk/government/publications/accounting-officer-system-statements>;
- Other relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts,
<https://www.gov.uk/government/collections/whole-of-government-accounts>;

- **Management of Risk**
- Management of Risk: Principles and Concepts,
<https://www.gov.uk/government/publications/management-of-risk-in-government-framework>;
 - http://www.hm-treasury.gov.uk/d/orange_book.pdf;
- HM Treasury and NAO Guidance on Tackling Fraud,
 - https://www.nao.org.uk/wp-content/uploads/2013/02/Tackling_External_Fraud.pdf;

- Public Sector Internal Audit Standards,
<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>;
- Appropriate adaptations of the Audit Committee Handbook,
 - http://www.hm-treasury.gov.uk/audit_committee_handbook.htm;
- HM Treasury approval processes for Major Projects above delegated limits,
<https://www.gov.uk/government/publications/treasury-approvals-process-for-programmes-and-projects>;
- **Public Appointments**
- Guidance from the Commissioner for Public Appointments,
<https://publicappointmentscommissioner.independent.gov.uk/>;
- Governance Code on Public Appointments,
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/578498/governance_code_on_public_appointments_16_12_2016.pdf;
- Procurement Policy Note 08/15 – Tax Arrangements of Public Appointees,
 - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/418726/PPN_08-15_Tax_arrangements_for_public_appointees.pdf;
- **Staff and Remuneration**
- HM Treasury guidance on senior pay and reward,
<https://www.gov.uk/government/publications/senior-civil-service-pay-and-reward>;
- Civil Service pay guidance (updated annually),
<https://www.gov.uk/government/publications/civil-service-pay-guidance-2017-to-2018/civil-service-pay-guidance-2017-to-2018>;
- Public sector pay and terms,
 - <https://www.gov.uk/government/publications/public-sector-pay-and-terms-guidance-note>;
- Whistleblowing Guidance and Code of Practice,
<https://www.gov.uk/government/publications/whistleblowing-guidance-and-code-of-practice-for-employers>;
- The Equalities Act 2010,
 - <https://www.gov.uk/guidance/equality-act-2010-guidance>;
- Modern Slavery Act 2015,
 - <http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>
- Other generally relevant employment law.
- **General**
- Freedom of Information Act guidance and instructions,
<http://www.legislation.gov.uk/ukpga/2000/36/contents>,
 - <https://ico.org.uk/for-organisations/guide-to-freedom-of-information/>;
- The Parliamentary and Health Service Ombudsman’s Principles of Good Administration,
 - <https://www.ombudsman.org.uk/about-us/our-principles>

- Other relevant instructions and guidance issued by the central Departments (Cabinet Office and HM Treasury);
- Specific instructions and guidance issued to Partner Organisations by BEIS;
- Recommendations made by the Public Accounts Committee, or by other Parliamentary authority, that have been accepted by the Government and relevant to UKRI.

The Financial Reporting Council shall also be mindful of the following wider public policy priorities relevant to public bodies in the BEIS Group:

- Code of practice for partnerships between Departments and Arms' Length Bodies with ALBs,
 - <https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice>;
- Guidance from the Public Bodies team in Cabinet Office,
 - <https://www.gov.uk/government/publications/public-bodies-information-and-guidance>;
- The Civil Service diversity and inclusion strategy, <https://www.gov.uk/government/publications/a-brilliant-civil-service-becoming-the-uks-most-inclusive-employer>;
- Guidance produced by the Infrastructure and Projects Authority (IPA) on management of major projects,
 - <https://www.gov.uk/government/organisations/infrastructure-and-projects-authority>
- The Government response to the Taylor review on modern working practices (published by BEIS),
 - <https://www.gov.uk/government/publications/government-response-to-the-taylor-review-of-modern-working-practices>;
- The Government Fraud, Error, Debt and Grant Efficiency function, <https://www.gov.uk/government/organisations/government-digital-service>;
- The Government cyber-security strategy and cyber security guidance, <https://www.gov.uk/government/collections/cyber-security-guidance-for-business>;
- The Government Digital Service, <https://www.gov.uk/government/organisations/government-digital-service>.