What Does the FRC's 2017-2018 Priorities Mean for Private Shareholders?

Sue Milton

'News flash': The Financial Reporting Council will engage with readers of the Sun newspaper!
'Confession': The Public just might be right in expecting more from Auditors!
Humility in a regulator is rare but this was part of the experience when 50 or so people had a conversation on the 1st February with the Financial Reporting Council (FRC) on its proposed priorities for 2017-18. (The priorities can be found at https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Draft-Plan-Budget-and-Levy-Proposals-2017-18-File.pdf, pages 5-6.)

The priorities stem from the belief that trust in business has declined to such a degree a rethink is necessary to address public concerns whilst complementing work already in hand such as corporate culture, the Corporate Governance Reform green paper and the behavioural failures akin to Volkswagen and Bhs. Somehow business and auditing professionals have failed the Public in at least two areas……

The FRC is concerned about the expectations gap between what auditors do and what the Public think they should be doing. Accessible communication that explains the role of the auditor without needing a PhD is vital to laying the foundations for trust. The aspiration to engage with Sun Readers is therefore inspiring and will help remove misperceptions.
The quality of some audits is poor. Whether produced by accounting professionals or from business assurance, mistakes and misrepresentations have been overlooked or condoned by weak challenge. It is time to listen to the Public and increase the level of professionalism in independent assurance.

This is a real opportunity for the private shareholder and UKSA. We are the Public who has both a foot in the corporate door through our share ownership and an opportunity to influence through our engagement with the CEO. The most relevant of the priorities for private shareholders are the FRC's desire to promote effective investor stewardship, encourage clear and concise corporate reporting and build confidence in auditing. Taking these one-by-one:

From a private shareholder perspective, *promoting effective investor stewardship* is the one negative element. Improving investor shareholder engagement is to be supported but, once again, the barriers to engagement faced by the private shareholder and the private investor, who is not the true owner of their shares but simply the beneficiary, is being overlooked. Nevertheless, should the FRC update the Stewardship Code, we private shareholders should review and comment, and see how we can turn proposed enhancements to our advantage to improve access and accountability. The FRC has to be applauded in
e*ncouraging clear and concise corporate reporting*. It should make producing, reading and understanding reports quicker and easier. Keep those Sun readers in mind and we will all benefit. But this is no easy ask. A reporting rethink is necessary and UKSA's collective expertise may have solutions to propose.
As the UK's Competent Authority, the FRC can now be a more proactive regulator. Enhanced monitoring, balanced by appropriate enforcement will *build confidence in auditing.* We, as private shareholders, can only benefit from improvements in audit and assurance.

To sum up, we need to use the FRC's priorities as an opportunity to create a virtuous circle. Rebuilding genuine trust is important for UK plc as it provides us with a competitive advantage. BREXIT intensifies that need. If we play our part, not only can we support UK plc but also enable UKSA increase its influence on companies for the benefit of private shareholders and the wider private beneficiary community. Power to the People!

By Sue Milton