

Lifting the Lid on the FRC – 21 November 2017

by Peter Parry

The Financial Reporting Council (FRC) recently organised a half-day event to give private shareholders insight into the role and remit of the Regulator. All members of UKSA and ShareSoc were invited. Aleksandra Maczynska, Executive Director at Better Finance, also attended the event. The FRC has been working hard to develop and maintain levels of investor engagement recently. UKSA regularly gets invitations to participate in the FRC's Reporting Lab projects, consultations, roundtable meetings and other events. We always try to take up these invitations and participate in the work of the FRC. However, this was the first event specifically designed to give private investors an overview of the FRC, how it works and of the scope of its remit.



The event started with a short welcome and introduction from Tracy Vergo, the FRC's Executive Director of Strategy, who stressed the benefits of closer links with private shareholders and the valuable perspective that they bring to the FRC's work. This was a clear message of support and encouragement to the 'home team' as well as to the visitors.

The following sessions, led by senior managers from the FRC, looked at issues such as audit standard setting and audit quality review, accounting and reporting and the monitoring, maintenance and development of accounting standards, the FRC's enforcement role and an overview of the FRC's role in setting corporate governance and stewardship codes. There was also an update on some of the recent projects that the FRC has been working on with investors such as the investigation into risk and viability reporting and the Reporting Lab project on audit committee reporting.

One of the purposes of the event was to create awareness among private investors of the both the breadth and limitations of the FRC's remit. For example, the FRC is responsible for overseeing the work of the actuarial profession as well as that of auditors. Contrary to popular belief, the FRC is not publicly funded. It is funded by a levy paid partly by the audit and actuarial professions and partly by the organisations which have to prepare accounts. This arrangement is not entirely satisfactory in that the FRC is funded to a significant extent by those it is supposed to regulate. It is also well known that the FRC recruits many of its managers and specialists from the major audit firms and those that leave often return to the world of audit. This raises concerns about the risk of regulatory capture. On the other hand, no one was left in any doubt about the depth of knowledge, expertise and understanding of the FRC speakers at the meeting. This can probably only be achieved by recruiting people with a senior management background in accounting and audit.

The FRC reviews about 150 audits every year and grades them into four categories. The reviews are listed on the FRC web site. A common reason for audits falling short is lack of professional scepticism.

On the subject of enforcement, the FRC's team has grown from 11 people in 2013 to 30 now and they admit that they are still short of resource and are actively recruiting. We also learned that the FRC's remit does not cover criminal activity. If the FRC suspects that crime is involved then the case passes to other bodies such as the police and the SFO. This, in part, explains why some complaints and the subsequent investigations can take years to complete.

Another limitation in the scope of the FRC's remit is that it is not responsible for the narrative aspects of the report. It certainly looks at the narrative elements and has recently reviewed business model reporting, risk and viability reporting and aspects of the 'strategic report'. It can report and make recommendations

on the usefulness of current reporting in these areas, but it has no power to take any action even if believes that content is misleading or deficient. Investors following the case of Carillion, which issued a number of upbeat statements in its 2016 annual report only to give a series of devastating profit warnings a few months later, will be aware that this has gone to the FCA for investigation, not the FRC.

A key message to private investors was a plea to engage fully with the FRC. The Regulator is very keen that investors should make input to its work as well as understanding how it works, what it does and the limitations and constraints under which it operates. Senior management is as frustrated by many of the constraints as we are as investors; so please make your views clear to government via your local MP. The FRC constantly lobbies government for a wider and more coherent remit with the powers it needs to maximise its effectiveness. All too often its pleas are dismissed as empire-building. If the same message comes from us as investors, those in government are more likely to listen.

This was an excellent event which was extremely well run. A full programme of presentations was skilfully shortened and tailored as we went along to allow people more time to ask questions. It would have been easy for the FRC to stick rigidly to its own agenda; but it didn't. It allowed the programme to evolve in line with the interests and concerns of the audience. A vote of thanks is due to Jen Sisson who leads Investor Engagement at the FRC and who suggested, planned and organised the whole event. We very much hope to follow it up with others in future.

Feedback on 'Lifting the Lid on the FRC'

The FRC passed on to us the results of the participants' survey. Here are two key findings:

Overall, how would you rate the event?

ANSWER CHOICES	RESPONSES	
Excellent	44.00%	11
Very good	48.00%	12
Good	8.00%	2
Fair	0.00%	0
Poor	0.00%	0
TOTAL		25

Following this event, would you say you have a better understanding of the role and remit of the FRC?

ANSWER CHOICES	RESPONSES	
Yes - I have a better understanding	100.00%	25
No - I dont	0.00%	0
About the same as before	0.00%	0
Total Respondents: 25		

STOP PRESS:

Following the success of last year's event, a date of 26 November 2018 has been agreed for a Private Investor Dialogue with the FRC. Please save the date in your diaries. More details will follow later in the year.