

IFIAR 2021 Member Profile – FRC

<p>1. Jurisdiction</p>	<p>1.1 Insert the name of the jurisdiction in English:</p> <p>United Kingdom</p>
<p>2. Member¹</p>	<p>2.1 Insert the name of the Member, both in the local language and in English:</p> <p>Financial Reporting Council (FRC)</p> <hr/> <p>2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information:</p> <p>8th Floor 125 London Wall London EC2Y 5AS Main Tel: 020 7492 2300 Website: www.frc.org.uk</p> <hr/> <p>2.3 Include the basis for establishment of the Member, as well as the legislation or regulations which provide the Member the authority/mandate with respect to audit regulation. Please describe with an appropriate level of detail the mission and responsibilities of the Member with respect to audit regulation:</p> <p>The Financial Reporting Council (FRC) is a private company limited by guarantee and was first established in 1990. It has a number of regulatory functions, including audit regulation, and has public body status. Its overall mission is the promotion of transparency and integrity in business, and its varied regulatory responsibilities derive from various sources including statutory delegations and voluntary arrangements.</p> <p>In relation to audit regulation all its responsibilities and authority can be found in statute i.e.</p> <ul style="list-style-type: none"> • <u>Recognition and Supervision of Recognised Supervisory Bodies (RSBs) and Recognised Qualifying Bodies (RQBs)</u> <p>Under the Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012 (Delegation Order), the responsibilities of the Secretary of State for Business, Energy</p>

¹ In the case where there are two or more regulators from the same jurisdiction that have been approved according to Section 2.3 of the IFIAR Charter, they together are considered as one Member. In that case, regulators are requested to include information for both organizations in the Member Profile.

and Industrial Strategy under Part 42 of the Companies Act 2006 have been delegated to the FRC.

- Competent Authority

Under the Statutory Auditors and Third Country Auditors Regulations 2016 (**SATCAR**), which implement the amended EU Audit Directive 2004 and the EU Audit Regulation 2014, the FRC is the UK's designated Competent Authority for Statutory Audit and is responsible for the tasks listed below:

- the determination of technical standards on professional ethics and internal quality control of statutory auditors and statutory audit work;
- the determination of the manner in which the standards are to be applied in practice;
- the determination of criteria for the purpose of determining whether persons are eligible for appointment as statutory auditors;
- the application of those criteria to determine whether persons are eligible for appointment as statutory auditors;
- registration of persons approved as eligible for appointment as statutory auditors;
- keeping the register and making it available for inspection;
- ensuring persons eligible for appointment as statutory auditors take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values at a sufficiently high level;
- monitoring (by means of inspections) of statutory auditors and audit work;
- investigations of statutory auditors and audit work; and
- imposing and enforcing sanctions
- other miscellaneous tasks set out in the EU Audit Regulation.

The FRC delegates a number of these tasks to the Recognised Supervisory Bodies under Delegation Agreements. The FRC may not (under the EU legislation and the UK implementing legislation) delegate the determination of standards, the determination of criteria for registration as a statutory auditor and the monitoring and investigation of PIE audits. The FRC monitors the RSB's in carrying out the delegated tasks and reports on its monitoring annually in an appendix to the FRC's annual report and accounts.

- Third Country Auditors

	<p>Under the Delegation Order, the FRC is responsible for the registration and monitoring of third country auditors pursuant to Part 42 Companies Act 2006.</p> <ul style="list-style-type: none"> • <u>Local Authority Auditors</u> <p>Under the Local Audit (Delegation of Functions) and Statutory Audit (Delegation of Functions) Order 2014 (Local Audit Delegation Order), the FRC is responsible for the recognition and supervision of supervisory and qualifying bodies for local authority audit under the Local Audit and Accountability Act 2014.</p> <ul style="list-style-type: none"> • <u>Independent Supervisor of Auditors General</u> <p>Under the Delegation Order, the FRC is responsible for the independent supervision of the Comptroller and Auditor General for England (the officer of the English Parliament which heads the National Audit Office, the body that scrutinises Government expenditure). The FRC carries out the same function for the Auditors General of Northern Ireland, Scotland and Wales.</p> <p>2.4 Have there been any major changes to the Member’s organization or to the governing legislation since completing last year’s Member Profile?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes, please describe these changes with an appropriate level of detail:</p> <p>There were changes to FRC’s “second tier” governance structure, please see 3.7 for more detail.</p>
<p>3. Governing Body Composition and members</p>	<p>3.1 Describe with an appropriate level of detail the current composition of the Member’s governing body, including the ratio between Board members who are independent from the audit profession and those who are not². The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p>The Board comprises a Chair and Non-Executive Directors appointed by the Secretary of State and the Chief Executive Officer. All Directors must be knowledgeable in areas relevant to statutory audit but no member of the</p>

² An individual is independent of the profession even if he is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.

	<p>Board may be a practising auditor or a member of the governing body of an accountancy body.</p> <p>Specifically, the Articles of Association includes provisions that:</p> <ul style="list-style-type: none"> • no director may be an individual who in the three years prior to appointment has: <ul style="list-style-type: none"> (i) been a practising auditor; or (ii) held voting rights in an audit firm; or (iii) been an employee of, partner of or otherwise contracted by an audit firm, a member of the administrative, management or supervisory body of an audit firm or an officer holder of an audit body; • no director may be an office holder of an accountancy or actuarial body; and • the majority of directors may not be individuals who in the five years prior to appointment have: <ul style="list-style-type: none"> (i) been practising accountants or actuaries; or (ii) held voting rights in an accountancy or actuarial firm; or (iii) been employees of an accountancy or actuarial firm, members of the administrative or management body of an accountancy or actuarial firm. <p>The FRC Board currently comprises:</p> <p><u>Chair</u>: Keith Skeoch (Interim chair) <u>Deputy Chair</u>: currently vacant and recruiting</p> <p><u>Non-Executive Directors</u>: David Childs John Coomber Julia Unwin Jenny Watson</p> <p><u>Executive Director and Chief Executive</u>: Sir Jonathan Thompson</p> <hr/> <p>3.2 What are the eligibility criteria / requirements and composition requirements for the members of the governing body?</p> <p>See above at 3.1.</p> <hr/> <p>3.3. Is each member of the governing body independent from the audit profession? The audit profession includes, for example: audit firms,</p>
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	<p>professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>See above at 3.1</p> <hr/> <p>3.4 If the answer to question 3.3 is “No”, is the majority of the members of the governing body non-practitioner?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p style="text-align: center;">N/A</p> <hr/> <p>3.5 If the answer to question 3.3 is “No”, which safeguards are in place to provide for the Member’s overall independence from the audit profession?</p> <p style="text-align: center;">N/A</p> <hr/> <p>3.6 Is there a restriction or recusal process that is applicable to members of the governing body of the Member who are current or former auditors/practitioners?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does this include a “cooling-off” period for former auditors?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes to either of the above, please describe:</p> <p>See above at 3.1 in relation to cooling off of former auditors. All Board Directors are also subject to the FRC’s Code of Conduct in relation to conflicts of interests and the provisions of the Companies Act 2006. The Code of Conduct was updated in 2017 and 2018 and is on the FRC website.</p>
	<p>3.7 Other than the governing body, are members of the profession involved in the Member’s organization (including in any inspections, committee or panel role)?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes, please describe their role with an appropriate level of detail, including the ratio between those who are independent and those who are not in the relevant function and whether such role includes decisional or control authority:</p>

Members of the profession are involved in the executive management of the FRC and in its regulatory functions i.e. its inspection, standard setting and enforcement functions.

The FRC is governed by its Board. Board members are appointed by the Department for Business, Energy and Industrial Strategy (BEIS).

The Board is then supported by, and delegates some of its responsibilities to, its two governance committees and two business committees. There are plans to establish a third business committee, the Supervision Committee, later in 2021.

The business committees and the Executive are supported by non-executive Senior Advisors and members of the Advisory Panel.

The Governance Committees

Audit & Risk Committee
People Committee

The Business Committees

Conduct Committee
Regulatory Standards & Codes Committee
Supervision Committee (this is due to be established later in 2021)

Advisory Groups

A group of non-executive Senior Advisors and an Advisory Panel of non-executive subject specialists provide support to both the Executive and the business Committees as required. Senior Advisors attend business Committee meetings as non-voting members.

Panels and Committees maintained for Enforcement matters

The following bodies are maintained pursuant to the Conduct Committee Operating procedures, the FRC's Disciplinary Schemes and the Audit Enforcement Procedure. They are independent of the FRC's governance structure.

Appointment Committee (who appoint members to the Tribunal Panel)
Tribunal Panel
Enforcement Committee Panel

Membership of the Conduct Committee is restricted in that no member may be

- an individual who in the three years prior to appointment has:

- (i) been a practising auditor; or
- (ii) held voting rights in an audit firm; or

	<p>(iii) been an employee of, partner of or otherwise contracted by an audit firm, a member of the administrative, management or supervisory body of an audit firm or an officer holder of an audit body;</p> <ul style="list-style-type: none"> an office holder of an accountancy or actuarial body. <p>FRC non-executive and staff members are subject to Codes of Conduct which require them to observe requirements in relation to the maintenance of objectivity and the avoidance of conflicts of interest. In addition, the provisions of the EU Audit Regulation have been onshored into UK domestic legislation and remain obligations as a result notwithstanding the conclusion of the Brexit transition period. This includes particular requirements for inspections to ensure that inspectors are independent.</p>
4. Funding Arrangements	<p>4.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget and the fees, if any:</p> <p>The Companies Act 2006 provides for the professional bodies to cover the FRC’s costs as the Competent Authority for audit. The remainder of the FRC’s core operating costs in relation to accounting, actuarial work and corporate governance are funded by through voluntary arrangements with the accountancy and actuarial professions and the business community and the pensions and insurance industries.</p>
	<p>4.2 Is the funding free from undue influence by the profession?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Please describe with an appropriate level of detail the safeguards in place to prevent undue influence by the profession:</p> <p>Each year the FRC determines its priorities and funding requirements for the next financial year with reference to its responsibilities set out in 2.3. The FRC consults publicly on those priorities and funding requirements before finalizing its Plan and Budget for each financial year. The profession may respond to the consultation as may any of the FRC’s stakeholder but otherwise has no influence over the FRC’s funding.</p>
5. Inspection System	<p>5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
	<p>5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p>

	<p>If through oversight of another organization, please describe with an appropriate level of detail the other organization, its relation to the Member, its role, and the arrangements for oversight:</p> <p>The FRC is responsible for inspecting auditors of all public-interest entities (PIEs). The inspections are undertaken by the FRC’s Audit Quality Review team (AQR) A public report on each firm is issued at the completion of the inspection. Reports on all audits reviewed are issued to both the audit firm and the audit committee chair.</p> <hr/> <p>5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:</p> <p>AQR currently inspects the six major firms annually, together with Mazars. The remaining firms auditing PIEs (approximately 30 other firms) will be inspected on a rolling basis going forward, every three to six years.</p>
<p>6. Audit and Financial Market</p>	<p>6.1 Provide the number of audit firms subject to inspections. Include an indication of the number of public interest audits (PIEs) and other audits that fall under the Member’s oversight or mandate.</p> <p>As noted above, there are 7 firms that are inspected annually by the FRC’s AQR team, and approximately a further 30 auditors of public interest entities which will be inspected every three to six years going forwards. The professional bodies are responsible for inspections of some 7000 auditors of non-public interest entities, subject to FRC oversight There are approximately 2200 audits subject to AQR inspection (comprising 2000 Public Interest Entities and 200 retained audits).</p> <hr/> <p>6.2 What are the sizes and market shares of each of the largest audit firms in the Member’s jurisdiction?</p> <p>The relevant size of each of the seven largest firms is estimated as follows:</p> <ul style="list-style-type: none"> • BDO LLP – 7% • Deloitte LLP – 17% • Ernst & Young LLP – 16% • Grant Thornton UK LLP – 5% • KPMG LLP– 22% • PricewaterhouseCoopers LLP – 25% • RSM – 3% <p>The above analysis is expressed as a percentage of audit fee income in the UK.</p>

	<p>7.4 If the Member has the responsibility for <u>Permanent Education of Auditors</u>, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p>The FRC is responsible for permanent or continuing education under the Companies Act 2006. It delegates this task to the Recognised Supervisory Bodies under Delegation Agreements with each of those bodies and then oversees the exercise of this task by the bodies. The Delegation Agreements are published on the FRC website.</p> <hr/> <p>7.5 If the Member has the responsibility for <u>Enforcement</u>, please indicate whether this responsibility is undertaken directly or through referral to other organization(s)?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Referral</p> <p>If through referral, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the enforcement powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p>The FRC is responsible for all enforcement under the Companies Act 2006. The FRC exercises these powers in relation to PIEs, large AIM companies and large Lloyds' syndicates. Its enforcement powers are set out in its Audit Enforcement Procedure.</p> <p>All other enforcement is exercised by the Recognised Supervisory Bodies pursuant to the Delegation Agreements with each of those bodies.</p> <hr/> <p>7.6 If the Member has the responsibility for other tasks within the area of Audit Oversight, please describe with an appropriate level of detail:</p> <p>Third Country Audit, Local Authority Audit and the Independent Supervision of the Comptroller and Auditor General as described in 2.3 above.</p>
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<p>8. Main Other Responsibilities of the Member <u>outside</u> the area of Audit Oversight</p>	<p>8.1 Please describe with an appropriate level of detail whether the Member has responsibility for tasks outside the area of audit oversight such as Supervision of Financial Reporting or Securities Regulation:</p> <p><u>Actuarial Regulation</u></p> <p>Responsible for the setting and maintenance of Technical Actuarial Standards and Actuarial Standard Technical Memorandum 1 and oversight of the regulation of actuaries by the Institute and Faculty of Actuaries.</p> <p><u>Corporate Reporting</u></p> <p>The FRC is the prescribed body for issuing accounting standards in the UK under the provisions of the Companies Act 2006.</p> <p>The FRC’s Conduct Committee is authorized under the Companies Act to apply to court to require an entity to amend their Annual Report and Accounts where it does not comply with the requirements of the Companies Act. In addition, the Conduct Committee monitors the accounts of issuers listed on the UK’s main markets and to inform the relevant listing authority if they have any concerns pursuant to the Companies Audit, Investigations and Community Enterprise Act 2014. The Conduct Committee is supported in this responsibility by the FRC’s Corporate Reporting Review Team.</p> <p><u>Corporate Governance and Stewardship</u></p> <p>The FRC maintains the UK Corporate Governance Code. UK listed companies are required to comply with the Code or to explain any departures from the Code in order to comply with the UK Listing Rules. Other entities voluntarily adhere to the provisions of the Code. The FRC also publishes guidance which compliments the Code and assists companies in addressing specific aspects of governance and accountability. They cover Board effectiveness, risk management and internal controls, the role of audit committees, and assessing and reporting on whether the business is a going concern.</p> <p>The FRC also maintains the UK Stewardship Code which aims to enhance the quality of engagement between asset managers and companies to help improve long term risk adjusted returns to shareholders.</p>
<p>9. Major Events and Activities</p>	<p>9.1 Describe any recent major events and activities:</p> <ul style="list-style-type: none"> • As discussed above we have changed our structure. • We are undertaking ongoing work towards transforming into the Audit, Reporting and Governance Authority (“ARGA”).