



Financial Reporting Council

Conduct Committee

Terms of Reference

1st June 2023

Conduct Committee - Terms of Reference

Purpose

The Conduct Committee (the 'Committee') shall be responsible for oversight of the FRC's enquiries, investigations and enforcement function and ensuring that appropriate cases are investigated and conducted fairly, in the public interest, in a timely manner and in accordance with due process.

1. Introduction

- 1.1. The Committee is a Regulatory Committee of the FRC Board ('the Board').
- 1.2. The Committee shall have a Deputy Chair of the Committee who is a non-executive director of the Board.
- 1.3. No former audit partner shall serve as Chair or Deputy Chair of the Committee.
- 1.4. In addition to these Terms of Reference, members of the Committee must adhere to the General Committee Terms contained in the FRC Governance Handbook.

2. Frequency of Meetings

- 2.1. The Committee shall meet at least six times a year.

3. Responsibilities

The Committee has the following responsibilities:

The Accountancy and Actuarial Schemes (Schemes)

- 3.1. Exercise those functions delegated to the Committee by the Board in accordance with the Schemes, which includes the following:
 - a. Determine whether a Member or Member Firm¹ is liable for investigation under the Schemes by applying the criteria at paragraph 5(1) and considering the factors at paragraph 5(2) of the Schemes.
 - b. If the Committee considers that it has insufficient information to determine liability to investigate, direct the FRC's Executive Counsel to make preliminary enquiries and inform the relevant Participant of the direction.
 - c. Consider referrals from Participants regarding the potential Misconduct of a Member or Member Firm and determine whether to accept the referral.
 - d. Consider whether a matter relating to the conduct of a Member or Member Firm which may be the subject of an investigation by a Participant, or which the Committee may otherwise become aware of, meets the threshold for investigation by Executive Counsel and should be dealt with by the FRC in accordance with the Schemes².

¹ The meaning for Member, Member Firm and Participant shall have the meanings given in the Schemes.

² Pursuant to paragraph 6(8) of the Schemes

The Audit Enforcement Procedure (the "AEP")

- 3.2. Exercise those functions delegated to the Committee by the Board in accordance with the AEP, which includes:
- a. Consideration of information presented to it by the Case Examiner to determine whether:
 - i) to direct the Case Examiner to attempt to resolve the matter(s) presented through Constructive Engagement
 - ii) there is good reason to investigate matter(s) and, if so, to refer the matters presented to either the Executive Counsel or the relevant Recognised Supervisory Bodies ("RSBs") for investigation
 - iii) no further action is to be taken in relation to the matter(s)
 - b. If particular criteria have been met, decide whether to reconsider a previous decision of the Committee or Case Examiner to take no further action or to undertake Constructive Engagement.

Auditor Regulatory Sanctions Procedure (ARSP) and Crown Dependencies Recognised Auditor Sanctions Procedure (CDRASP)

- 3.3. Exercise those functions delegated to the Committee by the Board in accordance with the ARSP (disciplinary procedure for major local audits) and CDRASP (disciplinary procedure for Crown Dependencies registered, market traded company audits) which includes the following:
- a. Receive Notifications that the Enforcement Committee has decided to refer matters relating to a local audit or audit of market traded company to the Independent Sanctions Tribunal to consider sanctions.
 - b. Receive any final reports issued by the Enforcement Committee or Independent Sanctions Tribunal under the ARSP or CDRASP.
 - c. Receive reports that a Registered/Recognised Auditor has failed to comply with written undertakings accepted by the Enforcement Committee or the Independent Sanctions Tribunal which has led to the re-opening of the matter.
 - d. Send notices and directions to the Convener and the relevant RSB as required.

Auditor General Disciplinary Rules (the "AGDR")

- 3.4. Exercise those functions delegated by the FRC, as the appointed Independent Supervisor³, to the Committee which includes the following:
- a. Maintain and exercise the Comptroller and Auditor General Disciplinary Rules.
 - b. Receive notifications when the Registrar determines that the conduct of the Auditor General shall be referred to an Investigating Committee.
 - c. Constitute an Investigating Committee from members of the Enforcement Committee.
 - d. Receive notifications of the Investigation Committee's decisions and, if necessary, inform the Chair of the Public Accounts Commission of that decision.

³ The FRC was appointed 'Independent Supervisor' under Chapter 3 of Part 42 of the Companies Act 2006.

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- e. Approve the publication of information relating to Disciplinary Hearings and Orders, as required.

Disciplinary Procedures (general)

- 3.5. Oversee the work of the Case Assessment Team (formerly known as the Case Examinations and Enquiries Team), including receipt of regular updates on the nature and number of cases being opened and closed by the Case Examiner.
- 3.6. Determine the scope of an investigation under the Schemes or AEP and approve any subsequent amendments to that scope.
- 3.7. Review and approve budgets for investigations and enforcement action.
- 3.8. Direct Notices to be sent to Respondents / Members or Member Firms, Executive Counsel, the Convener and the relevant RSB / Participant as required.
- 3.9. Oversee the progress of investigations handled by the Enforcement Division against agreed internal milestones and published Key Performance Indicators.
- 3.10. Receive notifications as investigations progress, including:
 - a. Executive Counsel decisions to close an investigation
 - b. The issuance of a Settlement Agreement/Final Settlement Decision Notice
 - c. The delivery of a Formal Complaint under the Schemes
 - d. The issuance of Disciplinary Tribunal Reports
 - e. The issuance of Notices of Appeal
 - f. The Issuance of Appeal Tribunal Reports.
- 3.11. Receive reports on the progress of investigations which the Committee has delegated to the RSBs.
- 3.12. Receive notification of any decision by the Case Examiner to reclaim an investigation delegated to the RSBs.
- 3.13. Determine the format, content and timing of discretionary announcements in accordance with the relevant published Publications Policy.
- 3.14. Approve any extensions to the default period for the publication of outcomes in disciplinary matters on the FRC's own website.
- 3.15. Commission internal reviews and public consultations on any proposed amendments or revisions to the Schemes, AEP, CDRASP and ARSP and PIE Auditor Registration Regulations ("PARR") and AGDR.

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- 3.16. Approve any amendments or revisions to the Schemes, AEP, CDRASP and ARSP, AGDR and PARR.
 - 3.17. Approve amendments to Sanctions Policies, Publication Policies and other guidance and policies in respect of the exercise of the Schemes, AEP, CDRASP, ARSP and PAR functions.
 - 3.18. Approve amendments to the Tribunal and Appeal Panel Terms of Appointment.
 - 3.19. Approve amendments to the Enforcement Committee Terms of Reference.
 - 3.20. Set the remuneration policy for members of the Enforcement Committee Panel, Tribunal Panel, Independent Sanctions Tribunal (CDRASP and ARSP), Appointment Committee, the Convener and the Secretary to the Tribunal and publish within a fees and expenses policy.

Other responsibilities

- 3.21. Insofar as it relates to enforcement activity, advise the Board on the exercise of its functions as the designated Competent Authority under The Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR16).
- 3.22. Oversee the FRC's central complaints processes and procedures and receive regular updates on the number and nature of complaints made to the FRC.
- 3.23. Approve any key publications relating to the FRC's investigations and enforcement activities, including the Annual Enforcement Review.
- 3.24. Receive updates on the activities of the Enforcement Division and the contribution of these activities to the objectives of the FRC.
- 3.25. Monitor the key risks in relation to the FRC's investigations and enforcement work.
- 3.26. Approve the appointment, reappointment or removal of Enforcement Committee Panel membership.
- 3.27. Approve the appointment, reappointment or removal of the Convener and Secretary to the Tribunal Panels.

Approved by the FRC Board with effect from 1 June 2023.



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