

Financial Reporting Council

Minutes of a meeting of the FRC Board held by Teams on 1 July 2020

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| PRESENT: | <p>David Childs John Coomber Keith Skeoch Sir Jon Thompson Jenny Watson Dame Julia Unwin</p> | <p>Acting Chairman - Non-Executive Director Non-Executive Director Non-Executive Director CEO Non-Executive Director Non-Executive Director</p> |
| IN ATTENDANCE: | <p>Francesca Carter Jenny Waterman Mark Babington</p> <p>Keith Billing James Ferris Simon Wasserman Deepa Raval Hannah Armitage Miranda Craig Jenny Carter</p> <p>Joyce Grant Phil Fitz-Gerald Claire Lindridge</p> <p>Chris Watson Tara Trousdale Elizabeth Barrett</p> <p>Mark Mainwaring Andrew Meek</p> | <p>Company Secretary Head of HR (item 4.4) Acting Executive Director, Regulatory Standards (items 5 - 10) Project Director (items 5 & 6) Acting Head of UK Auditing Standards (items 5 & 6) Project Director (item 7) Director of Narrative Reporting (items 8 & 9) Project Director (items 8 & 9) Director of Strategy & Change (items 8 -10) Acting Director, Accounting & Reporting Policy (items 10 and 12.5-12.6) Technical Accounting Director (item 10) Director of the Financial Reporting Lab (item 10) Acting Director, Audit Firm Monitoring & Supervision (item 10) David Rule Executive Director, Supervision (item 10) Risk Manager (item 12.2-12.4) Finance Director (item 12.2-12.6) Executive Counsel & Executive Director, Enforcement (item 13) Technical and Quality Manager (item 14) Acting Director, Audit Quality Review (item 14)</p> |

1. QUORUM AND OPENING OF THE MEETING

- 1.1 In accordance with the Articles of Association the Board nominated David Childs to chair the meeting in the absence of a Chairman.
- 1.2 The Chairman noted the meeting was quorate and opened the meeting.

2 DECLARATIONS OF INTEREST

- 2.1 In relation to agenda item 14, Dame Julia Unwin declared that she is a member of the Audit Committee of an entity whose accounts had been subject to an Audit Quality Review.
- 2.2 No other new interests were declared.

3 MINUTES AND MATTERS ARISING

- 3.1 The Board approved the minutes of the Board meeting of 18 May 2020 for publication.
- 3.2 The matters arising log was reviewed and noted.

4 CEO'S REPORT

- 4.1 The CEO provided an oral update on key matters including progress with the audit reform and transformation agenda, performance against budget, recruitment and staff morale. The Board welcomed that an all staff event had been held virtually and that over 80% of staff had joined.
- 4.2 The CEO reported that two pieces of information had been leaked in advance of publication. Whilst it was noted that the leaks had not come from within the organisation, the Board asked that the executive consider what steps could be taken by the FRC to prevent future occurrences.
- 4.3 The Board also noted an update on progress in recruiting a Chair and Deputy Chair. The Board expressed concern in relation to continuing delays and the risks associated with a reduced number of Board members. The Board asked that its concerns would be relayed to BEIS.

Staff Survey

- 4.4 The Board considered a report that set out the results of the 2020 all staff survey. It was noted that, at the request of the Permanent Secretary of BEIS, the survey had been aligned, in the most part, with the format used by the Civil Service to enable the data to be consolidated into a department-wide analysis.
- 4.5 The Board considered the key themes arising from the survey and the areas that had been identified for further action. Whilst the Board welcomed the steps being taken to respond to the findings of the survey, including that focus groups were being established to explore the areas that had been identified for improvement in more detail, the Board commented on the importance of ensuring the culture of the organisation is appropriately aligned with the vision for ARGA.

Governance Arrangements

- 4.6 The Board considered a report that set out a number of proposals in relation to the FRC's governance arrangements following the departure of the Chairman and delays to the recruitment of Non-Executive Directors.
- 4.7 Following discussion the Board agreed:
 - i. to disband the Nominations and Remunerations Committee and to establish a People Committee from 1 September 2020;
 - ii. terms of reference for the People Committee to be established from 1 September 2020;
 - iii. the appointment of Jenny Watson as a member of People Committee and Audit Committee from 1 September 2020 to 31 March 2021, with such further extension as may deem reasonably necessary pending the ongoing governance restructuring;
 - iv. the appointment of David Childs as a member of People Committee from 1 September 2020 to 31 December 2020; and
 - v. the appointment of Julia Unwin as a member of People Committee from 1 September 2020 to 31 March 2021, with such further extension as may deem reasonably necessary pending the ongoing governance restructuring.
- 4.8 The Board noted that, following discussion at the previous meeting, extensions to Council and Committee member appointments would be made to 31 March 2021 rather than 1 January 2021.
- 4.9 The Board discussed compliance with the UK Corporate Governance Code and requested the executive explore the possibility of co-opting an individual with recent and relevant financial experience to the Audit Committee. In recognition of the fact the FRC is unable to comply with a growing number of the provisions of the Code as a result of its status as a public body it was agreed that consideration would be given as to whether reporting against the UK Corporate Governance Code remains appropriate.

5 ADOPTION OF ISA (UK) 315 (REVISED JULY 2020)

- 5.1 The Board considered responses to the public consultation on the proposal to revise ISA (UK) 315 (Revised June 2016) to adopt the revisions made to the international standard whilst retaining current FRC supplementary material, and to make the related conforming amendments to other ISAs (UK). It was noted that respondents were broadly supportive to the proposals and that, given the significance of the change, an extended implementation period would be given. The FRC would also monitor, and contribute where appropriate, to the IAASB's implementation support initiatives.
- 5.2 The Board noted that, as no additional amendments to the revised International Standard were proposed, and that the International Standard had been subject to significant outreach, the risks associated with adopting the revised standard were minimal. On the basis of the discussion, and in noting that the Audit & Assurance Council had given its advice in support of the proposal, the Board approved the adoption of ISA (UK) 315 (Revised July 2020) and the conforming amendments to other ISAs (UK) to be effective for audits of financial statements for accounting periods beginning on or after 15 December 2021.

6 ADOPTION OF ISAE (UK) 3000 (JULY 2020)

- 6.1 The Board considered responses to the public consultation on the proposal to adopt the International Standard on Assurance Engagements (ISAE) 3000 (Revised) and a summary of clarifications and edits that had been introduced to address concerns raised.
- 6.2 Through discussion it was noted that the proposal would provide a standard for the conduct of public interest assurance engagements that the FRC may be requested to regulate in response to the outcome of recent and future reviews of the scope of auditors' responsibilities and other developments. There were minimal risks associated with the proposal on the basis minor amendments to the International Standard were being introduced and a large number of UK firms already follow the International Standard.
- 6.3 On the basis of the discussion, and in noting that the Audit & Assurance Council had given its advice in support of the proposal, the Board approve the adoption ISAE (UK) 3000 (July 2020) and the small number of conforming amendments to other FRC standards, to be effective for assurance reports dated on or after 15 September 2020.

7 CHANGES TO TECHNICAL ACTUARIAL STANDARD 400 – FUNERAL PLANS

- 7.1 The Board considered feedback to the public consultation proposing amendments to TAS 400 to reflect amendments made to the Funeral Planning Authority (FPA) Rules which require an annual Asset Adequacy Report. It was noted that respondents had identified commercial risks arising from the transition of responsibility of Funeral Plan Trusts to the Financial Conduct Authority (FCA) and that the FRC would liaise with the Institute and Faculty of Actuaries to determine the nature and level of support that would be given to actuaries working in this area. Two further amendments had also been made to the amended standard to respond to feedback.
- 7.2 Noting the advice of the Actuarial Council the Board approved the issue of Technical Actuarial Standard 400: Funeral plan trusts (revised) to be effective for work commencing on or after 1 December 2020. The Board also approved the Feedback Statement for publication.

8 FUTURE OF CORPORATE REPORTING

- 8.1 The Board considered a thought leadership paper proposing a principles-based framework for corporate reporting that would unpack the existing Annual Report and related Corporate Reporting into a series of interconnected reports. It was noted that the framework had been developed with input from a Board sub-Committee and an advisory group comprising the FRC's key stakeholder groups and is consistent with the direction of travel on transformation and reform.

- 8.2 The Board welcomed the paper and commended the executive on the level of input and evidence that had been collected to inform the development of the proposed framework. Through discussion it was suggested it would be useful to place greater emphasis on the evidence base and to make it clear how individuals could contribute to the debate the proposals would stimulate.
- 8.3 Subject to the suggestions made the Board the paper for publication in the autumn and agreed to delegate the exact timing and any minor amendments to update the paper for current developments to the CEO.

9 SUPPORT FOR NON-FINANCIAL REPORTING FRAMEWORKS

- 9.1 The Board considered, and supported, a proposal to encourage companies to report against the Taskforce on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) on a voluntary basis, ahead of the government developing a policy position on non-financial reporting, and a mechanism to require compliance with those standards.

10 TRANSFORMATION PROGRAMME UPDATE

- 10.1 The Board considered a report that provided an update on the work of the programme incorporating recommendations arising from the Kingman review, the CMA’s market study and the Brydon review together with the organisational changes associated with becoming ARGA. The Board noted that there had been an increase in engagement on policy development from BEIS and noted the latest expected timing for issue of the consultation. The Board also noted the programme risk dashboard summary including key risk headlines.

Definition of a Public Interest Entity

- 10.2 The Board noted the outcome of discussions with BEIS in respect of the Kingman recommendation to widen the scope of Public Interest Entities (PIEs) and expressed support for the proposals. Through discussion the Board also identified the potential risk of dual regulation and encouraged further discussions with the FCA and others before any consultation document is finalised.

Internal Controls

- 10.3 The Board considered a paper on the policy position to be taken with respect to strengthening the internal control frameworks in the UK. The Board reconfirmed it’s view that any such framework should be on the basis of financial reporting controls only. The Board also supported the suggestion of guidance for directors when assessing the effectiveness of controls.

Operational Separation

- 10.4 The Board considered proposed principles for Operation Separation of audit practices, noting clarificatory amendments that had been made following discussions with the Big 4 audit firms in relation to the governance and financial independence of the audit practice.
- 10.5 The Board approved the proposed principles for operational separation of audit practices and noted the principles would be published on 10 July.

11 REPORT FROM THE CONDUCT COMMITTEE CHAIRMAN

- 11.1 The Board noted draft minutes of the Conduct Committee meeting held on 9 June 2020 and noted an update on a matter that had arisen subsequent to the meeting.

12 REPORT FROM THE AUDIT COMMITTEE CHAIRMAN

- 12.1 The Board noted draft minutes of the Audit Committee meeting held on 18 June 2020 and noted reflections from the Audit Committee Chairman on the 2019/20 audit process.

Risk management

- 12.2 The Board considered a list of principle risks identified by the executive and endorsed by the Audit Committee. It was noted that an additional risk relating to Covid-19 had been included on the register of principle risks and that consideration was being given to the wording of PR4, relating to the credibility of the UK Corporate Code, to better reflect the risk. The Board agreed with the list of risks identified but requested that the risks associated with the FRC's current governance arrangements be captured.
- 12.3 The Board reviewed and, on the recommendation of the Audit Committee, agreed the draft risk framework and risk appetite statement.

FRC Annual Report and Accounts for the year ended 31 March 2020

- 12.4 The Board reviewed the FRC Annual Report & Accounts for the year ended 31 March 2020 and noted changes that had been made since the Report was considered at the May meeting. A small number of drafting amendments were made.
- 12.5 On the recommendation of the Audit Committee, the Board:
- i. Approved the FRC Annual Report and Financial Statements 2019/20 subject to drafting amendments identified during the meeting and any final editing of the Report approved by the CEO and Audit Committee Chair;
 - ii. Approved the Letter of Representation and authorised the Chief Executive Officer and Accounting Officer to sign it on behalf of the Board;
 - iii. Authorised the Chief Executive Officer and Accounting Officer to sign the Strategic Report and the Governance Statement, the Audit Committee Chairman and the Chief Executive Officer to sign the Balance Sheet, and the Company Secretary to sign the Directors' Report on behalf of the Board;
 - iv. Authorised the Executive to submit the FRC Annual Report and Financial Statements 2019/20 to Parliament before the House rises on 21 July 2020.
 - v. Agreed to recommend the adoption of the FRC Annual Report and Financial Statements 2019/20 to the Company at its Annual General Meeting
 - vi. Noted the draft Press Notice (Appendix 4) announcing the publication of the Annual Report.

13 QUARTERLY REPORT FROM THE DIRECTOR OF ENFORCEMENT

- 13.1 The Board noted a report that provided an update on the activities of the Enforcement Division and the status of active investigations.

Annual enforcement review

- 13.2 The Board considered and approved the issue of the Annual Enforcement review subject to minor changes to the order of the report to enhance focus on the key themes.

14 AQR PUBLIC REPORTS

- 14.1 The Board considered the final annual public reports on the inspection of audits for the seven largest audit firms. The Board noted the reports had been updated to reflect comments made at the previous meeting and comments made by the Conduct Committee.
- 14.2 The Board approved the public reports to be issued on 14 July and requested the press notice that would accompany the reports highlight the actions being taken by the FRC to continue to improve quality.



15 FORWARD PLAN

15.1 The Board noted the forward plan.

16 AOB

16.1 The Board noted recruitment to the UK Endorsement Board was due to commence and that members of the Board would be invited to sit on the recruitment panel in due course.

16.2 There was no other business.

Date of Next Meeting

Wednesday 7 October 2020 at 10am.

Signature:

Date:.....