AccountancyAge

FRC vows to continue audit reform fight in annual meeting

by Rachael Singh 17 Sep 2013

THE PROFESSION'S WATCHDOG has vowed that it will continue to argue for its comply or explain audit reforms in its recent annual meeting.

This is the first annual report since the streamlining of eight bodies into one with three divisions. The Financial Reporting Council said at the meeting it would continue to argue against the Competition Commission's proposed five year audit retendering; hopes to bolster its independence by increasing sanctioning powers; has made several changes to disciplinary processes; and hopes to work closer with audit committees.

As previously reported, the FRC said it disagreed with the Competition Commission's findings to force companies to retender every five years, and insists its comply or explain ten year retendering would better serve companies.

According to chief executive Stephen Haddrill, the FRC now has an office in Brussels to work closer with European Parliament on the issue in the hope to "extend" the watchdog's influence.

The FRC also argues that regulators need to allow an incumbent auditor to be allowed to bid in the retendering process, something not proposed by the Commission. By failing to do so there could be next to no competition in the market, especially in the financial services sector which is currently only served by three firms, he said.

Haddrill added that audit retendering needed to be slightly lenient to allow a company to explain certain situations, an idea proposed by the watchdog last year. "They could be on the verge of change, a merger, or sell off" he explained, which can all be outlined in a report.

Although he agreed that the lack of competition in the audit market remained a matter of concern he added the FRC must continue to remind government that we need an international contingency plan against the failure of a major firm.

The FRC must work closer with the Financial Conduct Authority and the focus on audit reports must be on quality, he said. "Companies should think about the audit quality and not just price in the retendering process," said Haddrill. He added the FRC wants to enhance the quality of audit reporting to be more fair/balanced and understandable for stakeholders.

Looking ahead the chief executive said he hoped the FRC would enhance its engagement with audit committees, which must provide better, more comprehensible reports.

The future of FRC

This is likely to be the last annual meeting chaired by Baroness Hogg (pictured) who steps down from the role this year. Hogg said that the FRC is now more than the sum of its parts which had not previously been the case.

Hogg said she would step down when the Department for Business Innovation and Skills announced a successor, claiming this would be her last year in the role. However, Haddrill piped up during his speech, that Hogg was putting a lot of faith into Whitehall and this may not in fact be her last as chairman.

The watchdog is also "on the verge" of sanctioning performance failures by firms itself in order to bolster independence. In the past audit failures are referred to professional bodies such as ICAEW or ACCA, however, this does not bolster independence, something that is at the heart of the FRC reforms.

Other announcements are that the FRC is also "locked" into a debate on extending the audit inspection role it has, to include the finances of local government; it also hopes to publishing a coherent and easy to adopt report on Sharman in the next few months.

The body went slightly over its budget, mostly due to disciplinary scheme changes, which Haddrill said was outside of its control. The total expenditure was higher than budgeted for 2012/13 coming in at £25.5m higher than the predicted £23.9m, and more than the previous year's £22.7m. However, Haddrill said the FRC had just broken even.

The attention was soon placed on integrated reporting, which seeks to quantify the social economic costs such as environment onto financial reports. The International Integrated Reporting Council (IIRC) earlier this year, published a framework which the FRC reiterated, it had objected to.

Executive director of governance codes and standards Melanie McLaren said of the IIRC framework "I think they [IIRC] had lost their way and the framework didn't ring true". She added the FRC had conversations with IIRC and have set some objectives which the international body had agreed with.

McLaren said she believed that integrated reporting could help in the FRC's objective to de-clutter annual reports.

The FRC will also take on responsibility of policing changes to the Companies Act which includes information on carbon emissions for listed companies. McLaren said that if the watchdog had difficulty they were prepared to recruit someone to fill that gap.

Following increasing criticism over the time taken by the FRC to take a disciplinary to tribunal, the watchdog said it will change procedures to quicken up the pace. Paul Boyle, executive director of conduct, said the division would respond more quickly to new concerns, and it had appointed a new head of supervisory enquiries to lead the work.

Earlier this month, the FRC issued a record breaking £14m fine to Deloitte, for advisory work the Big Four firm undertook ten years ago, involving collapsed car manufacturer MG Rover and the Phoenix Four.