Appendix 3.07.1 The Kingman Report on the FRC - recommendations

This report[1] made a number of reporting recommendations apart from the structure of the FRC replacement ARGA (Audit, Reporting and Governance Authority). The Government should review the UK's definition of a Public Interest Entity (PIE). We are particularly keen that private companies should be included and those large private equity owned companies as well. The general and overwhelming objective is:

> The regulator should have an overarching duty to promote the interests of consumers of financial information, not producers. It should also have a duty to promote competition; a duty to promote innovation; and a duty to apply proportionality to all its work.

The detailed remedies include:

1) **FRC/ARGA publication of audit reviews:** The new regulator should work towards a position where individual audit quality inspection reports, including grading, are published in full upon completion of Audit Quality Reviews (AQRs).
   - ⇨ This is contained and expanded within our quick fixes.
2) **The whole of the annual/corporate report:** The regulator's corporate reporting work should be extended from its current limited scope to cover the entire annual report. Something that is vital with what we regard as 'blue murder' being committed and going unchecked virtually by the statutory audit.
   - ⇨ At best it has boilerplate statements and is misleading with plenty of candelabra. Our view: often disgraceful.
3) **Additional information:** It should be given stronger powers to require documents and other relevant information in order to conduct that review work. The regulator should be given the power to require restatements promptly (rather than requiring a Court Order).
   - ⇨ Additional information is discussed in detail in our quick fixes.
4) **Wider range of information:** The Government, working with the FCA and the new regulator, should consider whether there is a case for strengthening qualitative regulation around a wider range of investor information…
   - ⇨ Discussed below.
5) **Brevity, comprehensibility, meaningfulness, and proportionality**: The regulator should be required to promote brevity and comprehensibility in accounts and annual reports, to engage meaningfully with investors and asset owners about their information needs, and to ensure the proportionality and value of reports.
   - ⇨ Quite but examining the section of the annual report on Directors' remuneration – this is often quite the opposite. Also proportionality is important. Not every firm should go through all the loops all the time.
6) **Value of the stewardship code:** A fundamental shift in approach is needed to ensure that the revised Stewardship Code more clearly differentiates excellence in stewardship. It should focus on outcomes and effectiveness, not on policy statements.

[1] Kingman Report, 2018, *Kingman Report: Independent Review of the Financial Reporting Council,* Government, December 2018
Available at:
https://www.gov.uk/government/publications/financial-reporting-council-review-2018
Accessed December 2018.

If this cannot be achieved, and the Code remains simply a driver of boilerplate reporting, serious consideration should be given to its abolition.

- ⇨ Interesting – basically governance section in reports might not be worth the paper it is written on!