

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fifth Delegated Legislation Committee

DRAFT FINANCIAL REPORTING COUNCIL
(MISCELLANEOUS PROVISIONS) ORDER 2021

Wednesday 10 March 2021

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The Committee consisted of the following Members:

Chair: SIR CHARLES WALKER

Ali, Rushanara (*Bethnal Green and Bow*) (Lab)
 Andrew, Stuart (*Treasurer of Her Majesty's Household*)
 Bradshaw, Mr Ben (*Exeter*) (Lab)
 Caulfield, Maria (*Lewes*) (Con)
 † Davies, David T. C. (*Monmouth*) (Con)
 Gibson, Peter (*Darlington*) (Con)
 Gideon, Jo (*Stoke-on-Trent Central*) (Con)
 Johnson, Kim (*Liverpool, Riverside*) (Lab)
 Jones, Mr Marcus (*Vice-Chamberlain of Her Majesty's Household*)
 Mann, Scott (*North Cornwall*) (Con)

† Morris, James (*Lord Commissioner of Her Majesty's Treasury*)
 † Powell, Lucy (*Manchester Central*) (Lab/Co-op)
 Rutley, David (*Lord Commissioner of Her Majesty's Treasury*)
 † Scully, Paul (*Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy*)
 † Smith, Jeff (*Manchester, Withington*) (Lab)
 Smith, Nick (*Blaenau Gwent*) (Lab)
 Thompson, Owen (*Midlothian*) (SNP)
 Sarah Ioannou, *Committee Clerk*
 † **attended the Committee**

Fifth Delegated Legislation Committee

Wednesday 10 March 2021

[SIR CHARLES WALKER *in the Chair*]

Financial Reporting Council (Miscellaneous Provisions) Order 2021

2.30 pm

The Chair: Before we begin, I remind Members about social distancing. Spaces available to Members are clearly marked—that will not be a problem today. I also remind Members that Mr Speaker has stated that masks should be worn in Committee, obviously when you are not speaking. *Hansard* colleagues will be grateful if you could send any speaking notes to hansardnotes@parliament.uk.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Paul Scully): I beg to move,

That the Committee has considered the draft Financial Reporting Council (Miscellaneous Provisions) Order 2021.

It is a pleasure to serve under your chairmanship, Sir Charles. The order was laid before the House on 8 April. It aims to ensure that the Financial Reporting Council, the public body that regulates auditors, accountants and actuaries, follows the same rules as other regulators on access to information, how it exercises its regulatory functions and promoting equality.

The order serves three purposes. First, it designates the Financial Reporting Council a public authority for the purposes of the Freedom of Information Act in respect of specific public functions. Secondly, it ensures that all the FRC's regulatory functions are subject to the regulators' code, which sets good practice for regulators. Thirdly, it will add the FRC to the list of public authorities subject to the public sector equality duty.

I should stress that the FRC is already partially subject to those duties, and otherwise voluntarily adheres to those rules at the moment. However, it is more effective, more transparent and more consistent to apply those duties and rules in law comprehensively, as the draft instrument does.

Following the collapse of BHS and Carillion in particular, it has been a priority of the Government to understand and address shortcomings in the UK audit environment, including the role of the FRC as regulator. That is why, in April 2018, the Government commissioned Sir John Kingman to conduct an independent review of the FRC, which reported on 18 December 2018.

The FRC review identified the need for a new, strengthened regulator. It emphasised the need for the regulator to be held to the standards and obligations expected of all public sector bodies and to be more transparent, and recommended that it should be subject to the Freedom of Information Act and the regulators' code. Those findings were supported by the Government and welcomed at the time by the Business, Energy and Industrial Strategy Committee.

The FRC, under new leadership, has already taken significant steps to strengthen its capabilities and to begin building the additional capacity needed to deliver on the ambitious mandate set by the FRC review.

The order builds on the progress in implementing the review's recommendations on the FRC's internal workings, which include full compliance with the "Managing Public Money" handbook, streamlining governance structures and enhancing stakeholder engagement. Those measures represent another step forward on the path to transforming the FRC into a new, strengthened regulator.

Let me deal with the application of the FOI Act to the FRC. At the moment, only some of the FRC's statutory functions are subject to the FOI Act. The FRC has since voluntarily adopted compliance with its provisions. The order will designate the FRC a public authority for the purposes of the FOI Act, so that all its public functions are covered by the Act. The FRC was consulted on the application of the Act to its public functions and was supportive of that. Since the FRC is a public body, it is right and proper that the order applies the FOI Act to its public functions, helping to underpin public confidence and trust in the regulator.

I turn to the regulators' code measure. The FRC already applies the code to some of its regulatory functions. The order will now apply the regulators' code to all the FRC's regulatory functions, save those that it has delegated to the relevant professional bodies.

The code encourages trust, open dialogue and accountability between the regulator and those that it regulates. Application of the code by legislation will make the FRC more accountable, in line with other regulators. It will encourage greater transparency in the way regulation is delivered and enable the FRC to target its resources better.

The Government have worked closely with the FRC and the relevant professional bodies and consulted them on this matter. All the consulted parties supported the application of the code to the FRC.

The third measure is the public sector equality duty. It will add the FRC to the list of public bodies that are formally subject to the duty. Currently, the FRC is only subject to the duty with respect to its public functions.

Those subject to the equality duty must eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by or under the Equality Act 2010. They must advance equality of opportunity between people who share a protected characteristic and those who do not. They must also foster good relations between people who share a protected characteristic and those who do not.

The FRC sets the UK corporate governance code, which the UK's largest companies are required to apply on a "comply or explain" basis. The code promotes diversity reporting. It is therefore only fair that the FRC itself is subject to the highest public duty with respect to equality considerations in its role.

In March 2019, in publishing an initial response to the FRC review, the Government committed to replace the FRC with a new independent statutory regulator with stronger powers. The new regulator, the Audit, Reporting and Governance Authority, will be a regulator with teeth, backed by legislation, funded by a mandatory levy on industry, with stronger enforcement powers.

The Government will legislate to create the new regulator when parliamentary time allows, but the measures in the draft instrument do not need to wait and should not wait. They will ensure that the FRC's position is consistent with those of other public bodies and make it more transparent and more accountable to the businesses and professions that it regulates.

I hope that the Committee agrees that the three measures in the instrument will improve the UK's audit, accounting and corporate reporting regulator by making it more accountable and transparent.

I commend the order to the Committee.

2.36 pm

Lucy Powell (Manchester Central) (Lab/Co-op): It is a pleasure to serve under your chairmanship for the first time, Sir Charles, and to be back in Parliament with my SI buddy, the Minister. We seem to do a double act on these things.

As hon. Members know, the Financial Reporting Council is an independent regulator responsible for regulating auditors, accountants, and actuaries and setting the UK's corporate governance and stewardship code. However, as Sir John Kingman's review in December 2018 made clear, it was an institution that "leaked and creaked" and required fundamental reform. As the Minister said, its days are now numbered, and it is to be replaced by a new Audit, Reporting and Governance Authority, but it appears that the Government are dithering on this, given that Ministers have promised us year after year that audit reform will be introduced. We now hear that it will happen in early 2021, although that looks questionable too. Does the Minister know when we can expect audit reform for sure and the replacement of the FRC with the new authority? Will it mean more than just changing the letterhead?

The order imposes specific duties on the FRC related to freedom of information, the regulators' code and the public sector equality duty. The role of the FRC has developed over time, and in 2017 the then Department for Business, Energy and Industrial Strategy concluded that the FRC's work should comply with all the relevant public body guidelines. In 2018, the Government commissioned an independent review, which recommended that the regulator should be subject to the FOI Act.

A couple of years ago, the FRC voluntarily adopted compliance with the codes, so this statutory instrument will not fundamentally change the FRC's approach. Although it is welcome that compliance is to be put on a statutory footing, I wonder why it is happening now, when we are about to disband the organisation and replace it with a new one. Why could not we have passed the SI, which is fairly straightforward, two or three years ago?

We support the changes, but we wonder why they are being made now and when we can expect the proposals for the new Audit, Reporting and Governance Authority to come forward.

2.38 pm

Paul Scully: I appreciate the hon. Member's comments and constructive contribution to the debate. We do not want to delay the FRC's replacement in any way, but the new regulator will require primary legislation and, as I said, the Government intend to introduce it when parliamentary time allows.

In the meantime, the Government are committed to putting in place the right degree of transparency and oversight of the regulator. The order, which applies to the current regulator, is an important step in achieving that. Yes, the FRC has voluntarily covered a lot of what is in the measures, but we want to ensure its good standing until we get to the point of setting up its replacement. Reliable audit and corporate reporting are vital to well-functioning markets, business investment and growth. An effective regulator is essential to help the UK economy realise those benefits.

The measures will help ensure that the UK maintains and advances its status as a place of the highest standards in audit and corporate reporting. The Government are committed to acting on the findings of Sir John Kingman's independent review of the FRC. The measures are steps towards that goal.

I thank hon. Members again for their valuable time and contributions to the debate. I hope that the Committee will approve the SI.

Question put and agreed to.

2.40 pm

Committee rose.

