

10 THINGS YOU NEED TO KNOW ABOUT FINANCIAL REPORTING COUNCIL ENFORCEMENT



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THE FINANCIAL REPORTING COUNCIL (FRC) HAS ONE OF THE MOST EFFECTIVE REGULATORY ENFORCEMENT TEAMS IN THE UK.



IT HAS STATUTORY POWERS

over the audit of Public Companies, Financial Institutions and Insurance Undertakings, which were significantly strengthened in 2016.

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IT HAS POWERS TO INVESTIGATE AND SANCTION

the conduct of accountant directors in the preparation of financial statements.



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THOSE POWERS WILL WIDEN TO INCLUDE ALL DIRECTORS

when the FRC is rebranded as the Audit, Reporting and Governance Authority (ARGA). The government has signalled its intent to give ARGA greater powers to hold non-accountant directors to account for their duties to prepare and approve true and fair accounts and compliant corporate reports and to deal openly and honestly with auditors.



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THE FINANCIAL SANCTIONS IMPOSED ON AUDIT FIRMS HAVE RISEN

from under £1 million in 2011 to over £6 million by 2017. The starting point for serious breaches is £10 million.



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SANCTIONS ON ACCOUNTANT DIRECTORS

include suspension from accountancy professional bodies and fines; the total fines doubled between 2016 and 2019 from £0.4 million to £0.8 million.

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THE IMPETUS FOR WIDER POWERS AND HIGHER FINES CONTINUES

with the government

supporting the intention to increase the size of the Enforcement Division from about 40 to over 70 lawyers, accountants and support staff by 2021. In 2012—in the aftermath of the financial crash—the team was less than 10.

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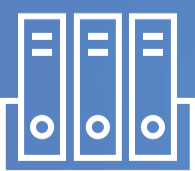
MANY OF THE INDIVIDUALS IT HAS INVESTIGATED AND SANCTIONED WERE INVESTIGATED BUT NOT SANCTIONED BY OTHERS

including the FCA, SFO and Insolvency Service. Sometimes the FRC Enforcement Division acts in tandem with those regulators, which take separate action against individuals. Watch this space for the investigation into the audit and financial statements, including disclosures, of Carillion PLC being undertaken by the FRC, FCA and Insolvency Service.

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THE RANGE OF ISSUES INVESTIGATED AND SANCTIONED

includes: Revenue Recognition; Related-Party Transactions; Goodwill; Setting of Materiality Levels; Going Concern; Pension Liabilities; and Long-Term Contract Accounting.



FRC ENFORCEMENT HAS THE POWER TO

require corporate entities whose auditor is under

investigation to provide all material relevant to the audit, which can include board minutes, audit committee minutes and emails between management and the audit team.

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**MORRISON
FOERSTER**