

Britainthinks

— Insight & Strategy —

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Understanding citizens' views on the regulation of corporate reporting, corporate governance and audit

Deliberative research conducted on behalf of the
Financial Reporting Council (FRC)

Contents

Executive summary	4
1. Introduction	15
1.1. Background to the research	15
1.2. Research objectives	16
1.3. Methodology	17
1.4. Recruitment and sampling	20
2. The context: citizens' background views on business	21
2.1. Chapter overview	21
2.2. Overarching perceptions of companies and what they deliver for the UK	22
2.3. Purposeful companies	29
3. Views on corporate reporting	35
3.1. Chapter overview	35
3.2. Awareness and spontaneous perceptions	36
3.3. Benefits of corporate reporting	37
3.4. Limitations of corporate reporting	39
4. Views on corporate governance	41
4.1. Chapter overview	41
4.2. Awareness and spontaneous perceptions	42
4.3. Benefits of corporate governance	43
4.4. Limitations of corporate governance	45
4.5. Stewardship of companies	48
5. Views on audit and audit quality	53
5.1. Chapter overview	53
5.2. Awareness and spontaneous perceptions	54
5.3. Benefits of audit	55
5.4. Limitations of audit	57
6. Citizens' criteria for effective regulation	60
6.1. Chapter overview	60
6.2. Providing the Regulator with enhanced power and 'teeth'	60
6.3. Holding individuals as well as companies to account	63
6.4. Defining and operating clearly in the public interest	64

6.5. Keeping the principle of independence as a priority 66
6.6. Citizens’ vision for corporate reporting, corporate governance and audit 66
7. Conclusion..... 75
8. Appendix..... 77

Executive summary

Background to the research

The Financial Reporting Council (FRC) regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.

As a public body, the FRC wanted to better understand the views of the general public who, as investors in shares, on their own account or in ISAs or pensions, or as customers or employees of businesses, have a stake in the work of the Regulator.

The FRC therefore commissioned BritainThinks to conduct research with the public to understand citizens' views on the development and strategy of the FRC, how the FRC can best operate in the public interest and identify any gaps in expectations between what the public perceives to be important and what the Regulator delivers and can deliver.

In particular, the research has focused on three key areas of regulation:

- corporate reporting
- corporate governance, and
- audit

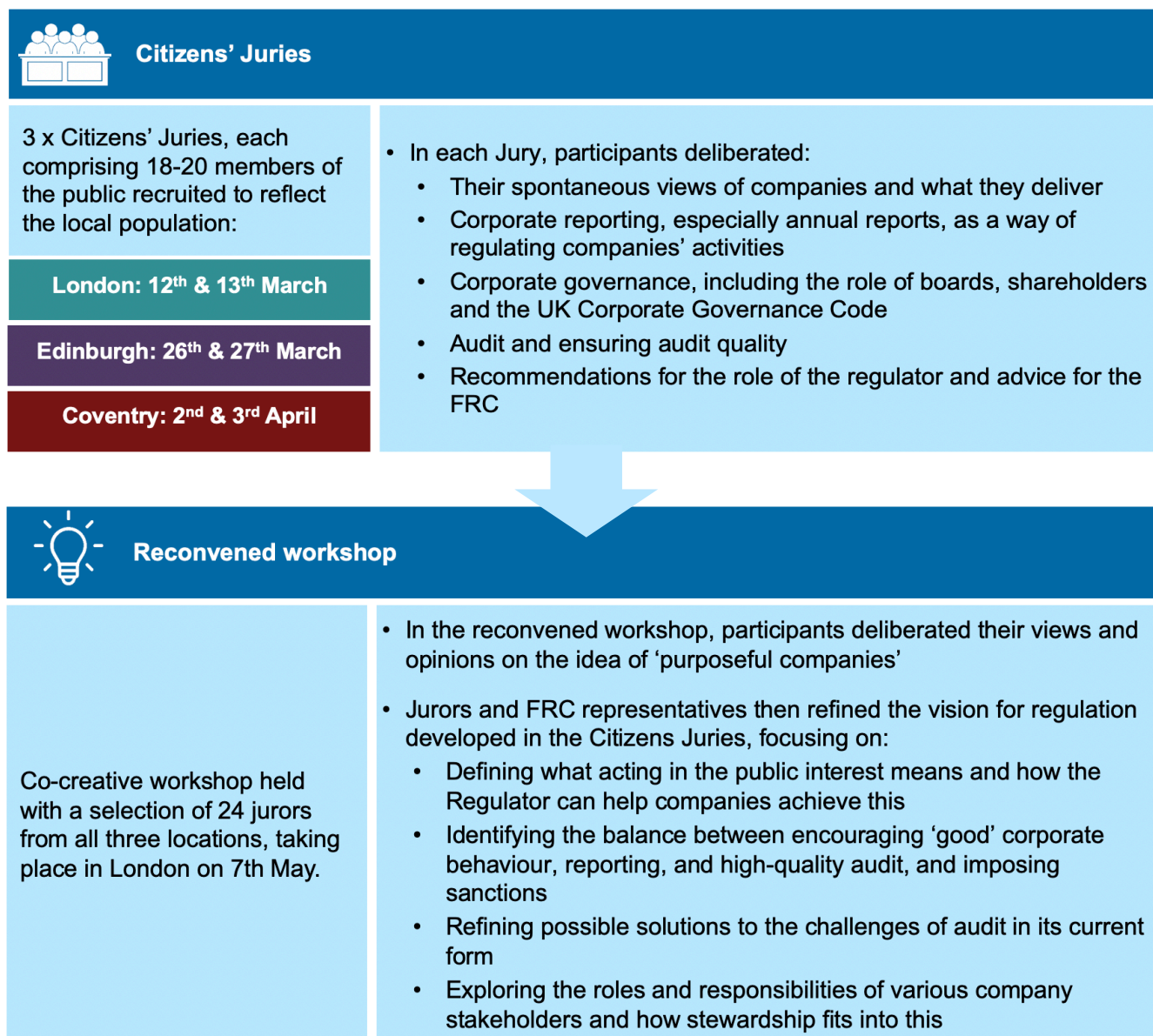
Methodology

To ensure that members of the public were able to meaningfully participate in conversations about the work and strategy of the FRC, a deliberative research approach was used.

BritainThinks conducted three Citizens' Juries in London, Edinburgh and Coventry. Each Jury comprised 18-20 members of the public, recruited to reflect the local population and ensure that a broadly representative and diverse sample of the general public were consulted. Each Citizens' Jury lasted two days in order to ensure that there was enough time for participants to be presented with, discuss and interrogate information about corporate reporting, corporate governance and audit, before discussing their views and developing recommendations.

These Citizens' Juries were followed by a reconvened workshop in London with a selection of 24 jurors from across all three locations. This workshop lasted for half a day and provided an opportunity for participants to develop their thinking and co-create recommendations for the future with representatives from the FRC.

Figure 1: Diagram providing an overview of the research methodology and material covered in both the Citizens' Juries and reconvened workshop.



Citizens' background views on business

Spontaneously, citizens' overarching views of companies tended to be negative, with greed and corporate misdemeanors front of mind. However, when considering the impact companies can have on the UK, particularly on the economy and local areas, jurors had more positive perceptions. In particular, jurors highlighted the importance of companies in providing employment, products and services, and investing in the UK.

Participants were then given a presentation with a brief overview of what a company is and were introduced to the four key ways members of the public interact with companies: as customers, employees, investors, and citizens.

Following this presentation, jurors discussed each of the ways the public interacts with companies in more detail, focusing on what companies deliver for each audience and the information they would want to know about companies' activities as a result. When exploring the key relationships that members of the public have with companies, jurors felt that:

- As customers, they wanted to know about the prices and products companies offer
- As employees, they mostly considered wages, opportunities and progression as the information they would need to know about companies' activities
- Acting as investors, their concerns and priorities surrounded the return and safety of investments
- As citizens, participants wanted to know information that would enable them to hold companies to account on issues including taxes, environmental policy and investing in their local area

Given the general focus of jurors on how companies' activities have an impact on society and the environment more broadly, the FRC decided to explore one of the potential ways in which companies can reflect these broader concerns as part of their business models, "purposeful companies", in the reconvened workshop.

The concept of purposeful companies was viewed positively, with all participants feeling it to be important that companies work to create long-term value by serving the needs of society. However, there were some concerns over the ease with which the principles of purposeful companies could be integrated into the day-to-day running of a company.

Citizens' views on corporate reporting, corporate governance and audit

During the Citizens' Juries, participants explored corporate reporting, corporate governance and audit in turn. For each, they listened to a presentation that introduced the area of regulation and an overview of the benefits and limitations of it. Following each presentation, jurors listed any outstanding questions they had and asked these of an FRC representative, to clarify any issues prompted by the presentation and aid with knowledge building for each topic.

Participants were also given information about one of three different FTSE 350 companies (a large pharmaceutical, large retail company, and a large entertainment company) to use as a case study. This included looking at the company's most recent annual report, including the auditor's report, and publicly-available information about the company's board of directors.

Corporate reporting

Spontaneous awareness of corporate reporting was low amongst participants overall. While some jurors were aware that companies do produce a public, end of year report, the majority were not aware that large companies are required to publish certain information in these annual reports by law.

After learning more about and discussing corporate reporting in detail, jurors felt that it was a relatively effective check on business in its current form. They identified a number of benefits of corporate reporting, including:

1. Promoting transparency in companies' activities, through making detailed information available in the public domain
2. Making it mandatory for companies to report on important information, especially financial information in annual reports as well as, more recently, publishing gender pay gap information
3. Providing a basis for comparability between different companies and industries to contextualise analysis of their performance and financial stability

However, jurors also identified a number of limitations to corporate reporting as a mechanism for regulating company activity. These included:

1. Corporate reports are inaccessible for non-expert audiences, including the language used, format and length of annual reports specifically.

2. Information jurors identified as important, including information about environmental sustainability and company values, was not mandatory for companies to report on.
3. The information presented in annual reports was largely to be taken at face value and trusted to be accurate.

Corporate governance

Spontaneously, there was little awareness and understanding of corporate governance amongst the majority of participants. Jurors were more familiar with the existence of non-executive directors and the role of a board of directors to some extent, but most had not heard of the UK Corporate Governance Code, nor the FRC's role in setting and maintaining the standards of UK corporate governance.

Jurors were pleased to learn that a framework outlining best practice for corporate governance was in place. They identified a number of benefits of corporate governance as a mechanism for regulating company activity. These benefits included:

1. The UK Corporate Governance Code promotes good practice in corporate behaviour, setting guidelines for companies to follow.
2. Non-executive directors act as an independent voice on a board, allowing them to challenge company directors and bring a fresh perspective.
3. Non-executive directors also bring a variety of skills and experience to a board of directors.

However, on balance, participants had concerns that the UK Corporate Governance Code did not go far enough to consistently prevent non-compliance, and voiced fears about the independence of non-executive directors being compromised. Jurors identified a number of limitations of corporate governance as a mechanism for regulating company activity. These included:

1. The UK Corporate Governance Code is applied on a "comply or explain" basis rather than enshrined in law (the Regulator does not have the powers to enforce the Code) which challenges the Regulator's ability to hold companies to account.
2. The Code is also felt to lack definitive metrics and measures by which to determine levels of compliance, making it harder to implement consistently.

3. Jurors expressed concerns about the independence of non-executive directors, with few checks or processes in place to prevent the appointments of non-executive directors with potential conflicts of interest.
4. Jurors also had doubts about the effectiveness of shareholders in holding companies and directors to account through their ability to vote at general meetings.

In the reconvened workshop, jurors developed these conversations by exploring the roles and responsibilities of different stakeholders involved in the successful running of a company. Participants also discussed the concept of stewardship to assess levels of awareness and gauge initial views:

- Company directors were felt to have the greatest responsibility for ensuring a company's success – from ensuring the profitability and stability of a company to setting a company's mission and purpose. However, jurors felt that the success of a company also depends heavily on its workforce. Customers and consumers are seen to have the potential to play an important role in holding companies to account, but jurors felt these stakeholders often don't have the necessary information to do so.
- Participants initially found the concept of stewardship confusing, but, on reflection, did understand the idea of 'stewards' as individuals or groups who have some responsibility for the running of a company and ensuring its stability. Whilst they could see how stewardship was a key responsibility for shareholders, they felt it could have a wider application to incorporate other stakeholders including company directors, employees and members of the public. Jurors also voiced concerns about stewardship falling exclusively to shareholders.

Audit

Participants did have some spontaneous awareness of audit, although jurors' understanding of what an audit entails tended to be quite vague and related to a rough idea of "checking" companies' accounts or "audit" in its broadest sense, as the inspection or examination of *something* if not necessarily accounts.

There was also evidence of a gap between participants' expectations of audit and the purpose and basic process of audit. Jurors tended to voice an expectation that audit would take a broader judgement on whether companies were operating in a

financially viable way, which would include forward-looking as well as historic information, with consideration of their impact on the environment and society as a whole, rather than simply verifying financial information to ensure its material accuracy and that the entity has complied with legal and regulatory requirements. In addition, participants tended to assume that audit would take a full and detailed view of a company and its accounts.

On balance, participants viewed audit as the check on companies' activities which should, in theory, be the strongest and most robust. They identified several key benefits:

1. Promoting transparency and assurance of company financial activity.
2. Auditors and audit firms providing an independent check on companies' accounts.
3. The expertise of individual auditors and audit firms with a high bar for who can undertake audit.
4. The Regulator's role in ensuring quality and standards are maintained through spot-checks – the programme of audit quality reviews.

While participants could identify benefits to the way in which audits are conducted, awareness of recent high-profile failures, including Carillion and BHS, severely limited confidence in how successful audits can truly be. Their confidence was also undermined by concerns about areas where companies did not conform with their understanding of the law, but are in fact operating legally. They identified several limitations, focused on the following three areas:

1. The gap in participants' expectations for audit and what it can achieve.
2. Whether independence can be guaranteed in practice, especially in the context of the 'Big Four' audit firms dominating the market.
3. The Regulator is currently limited in its powers to both encourage high quality audits and sanction auditors and companies.

Citizens' criteria for effective regulation

After discussing corporate reporting, corporate governance and audit in depth, participants developed four overarching criteria they felt the Regulator needs to meet when thinking about these checks on company activities:

1. **The Regulator should be given enhanced power and ‘teeth’ to hold companies to account.** Participants wanted to see the Regulator given greater powers to hold companies to account but were somewhat divided over how best to achieve this. A number of jurors called for the introduction of legislative changes to enable this to happen, but some did acknowledge that any increase in regulation should not ‘stifle’ companies’ ability to operate and flourish.

Participants explored this balance – and how the Regulator can best achieve this – in more detail in the reconvened workshop. Upon further reflection and discussion, participants identified two ways in which the Regulator can reduce the risk of non-compliance with the codes and standards in corporate reporting, governance and audit, whilst encouraging growth and innovation in companies and engagement in the relevant professions:

- **The Regulator needs to have more power to interact with companies ‘early on’.** Jurors felt that early interventions in the event of any issues arising would help the Regulator avoid imposing stricter punishments, by preventing more major issues from developing. There was support for these interventions taking the form of both announced and unannounced ‘Ofsted-style’ spot checks.
- **The Regulator needs to not be seen as ‘scary’, but as a ‘critical friend’.** Jurors saw a clear role for the Regulator in being more proactive in contacting companies to provide advice, support and encouragement.

2. **The Regulator should hold *individuals* (and other than those who are members of a professional body, as at present) as well as companies to account to deter wrong-doing.** Jurors felt strongly that individuals acting against the public interest should not be able to escape their misconduct with few personal ramifications. As a result, they felt that the Regulator should be able to ‘sanction’ individual board members and sanctions for audit partners should be borne by the individuals concerned rather than their firms.
3. **The Regulator should define and operate clearly in the public interest.** Across all three Juries, participants implicitly called for companies to act in their interest. However, they felt the concept itself is hard to define. The term ‘public interest’ feels vague and can mean different things to different people.

In the reconvened workshop, jurors discussed the principle of operating in the public interest in more detail. Participants felt that, to act in the public interest, companies should:

- **Take into account wider audiences and types of stakeholders outside of shareholders**, including employees. The views of local communities in particular should be taken into account.
- **Ensuring and improving diversity on boards**. Jurors felt the Regulator should encourage diversity, perhaps even setting minimum quotas for boards – but felt it was important this didn't become a 'box-ticking' exercise.
- **Improving openness and transparency to improve accessibility for the public**. Re-addressing the balance between "sticks" (sanctions) and "carrots" (incentives) so that the emphasis is more on the latter was felt to work towards this, helping foster an environment based on open dialogue and transparency.

4. **The Regulator should keep the principle of independence as a key priority**. Jurors agreed that the Regulator should ensure that independence is retained at all costs. Participants felt it was particularly important to ensure the independence of non-executive directors and audit partners.

Citizens' vision for corporate reporting, corporate governance and audit

Building on the challenges they identified with corporate reporting, corporate governance and audit, participants developed a vision for each that meets their criteria for effective regulation. Their recommendations and ideas were also deliberated in further detail during the reconvened workshop.

Corporate reporting

Jurors identified a need for companies' reports to be made more accessible to the public. To achieve this, some participants suggested implementing a rating system or ranking for annual reports to help identify which companies are producing the most straightforward, clearly written and well-structured reports. Participants also suggested that, to better enable comparability between companies, a more standardised report template, including clear guidelines over the language to use, could be implemented.

Many jurors were overwhelmed by the length of corporate reports and felt that technology could be used to better effect to help make this easier to navigate. Participants suggested having an 'interactive' online version of corporate reports to make it easier to select information of interest.

Finally, the majority of participants felt it should be made mandatory for companies to report on environmental sustainability and company values (for example, how staff are treated).

Corporate governance

On corporate governance, jurors' key stipulation was ensuring the Regulator is better able to enforce the UK Corporate Governance Code. In London and Edinburgh, jurors wanted the Code to become legislation, therefore giving the Regulator the legal powers needed to enforce it. In Coventry however, several participants felt it would be more effective for the Regulator to reward best practice rather than turning the Code into legislation, to ensure it still provides the flexibility needed for companies to remain innovative and competitive.

Ensuring diversity on boards was felt to be critical in enabling companies to act in the public interest. Participants suggested setting stricter rules on the gender and BAME balance of boards as well as reviewing recruitment processes as a way of reaching beyond the 'old boys club'. They also felt that it would be useful to ensure that there is an employee representative on boards, to make sure that people actively involved in the day-to-day running of the company are also involved in decision-making.

Finally, jurors suggested measures to ensure non-executive directors retain their independence. They felt this could be achieved by implementing enforced turnover rates of three years for non-executive directors, so they remain independent and offer real challenge.

Audit

For audit, jurors identified a need for making sure audit and ethical standards are being followed in order to prevent misconduct and drive high-quality work. Jurors felt that there should be more focus on holding individuals to account for their actions, for example fining individual audit partners. By focusing on individual accountability, participants felt that the Regulator would create an effective disincentive to poor quality audit, conflicts of interest and fraud, without having a negative impact on the audit firm itself.

Ensuring independence was also felt to be key. As part of this, jurors suggested that the maximum length of an audit contract with individual audit firms is reassessed. Jurors suggested that the current maximum of 20 years be reduced to a 5 -10-year term limit, with individual auditors and audit partners required to rotate every 2 - 3 years within this.

Finally, jurors also felt the audit system could do more to act in the public interest by assessing and ensuring the long-term success of a company. Jurors felt that auditors could have more of a role in assessing how economically or financially sustainable a company might be, in the medium- as well as short-term. However, jurors did recognise that this might require legislative change and would also only provide reasonable, not absolute, assurance.

In the reconvened workshop, jurors worked with FRC representatives to refine possible solutions to the challenges of audit in its current form, as identified in the Citizens' Juries:

- Participants called for the Regulator to be given more power to apply sanctions in the event of wrong-doing, but for these sanctions to be applied as a last resort. Jurors felt that one of the ways in which the Regulator could achieve this balance was by having more open lines of communication and transparency with companies and audit firms, to help identify issues early on.
- Jurors also deliberated how the Regulator could ensure that sanctions are applied fairly to avoid scapegoating within firms and expressed a need for a clearly defined list of roles and responsibilities, to make it clear who is accountable for what.
- Jurors also suggested that the Regulator accompany or shadow auditors as they carry out audits, in order to ensure standards are being met and to provide expert support and advice. Participants did acknowledge that this would require significant resource on the part of the Regulator.
- There was also support for the idea of entirely separating the audit and consultancy services functions within the 'Big 4' firms, to ensure independence is retained.

1. Introduction

1.1. Background to the research

The Financial Reporting Council (FRC) regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes. The FRC promotes transparency and integrity in business and its work is aimed at investors and others who rely on company reports, audit and high-quality risk management.

As a public sector body, the FRC wanted to better understand the views of the general public who, as investors in shares, on their own account or in ISAs or pensions, or as customers or employees of businesses, have a stake in the work of the Regulator. The FRC recognised that it would be important to reach beyond the industry stakeholders who typically engage with their necessarily technical consultations on proposed and actual changes to regulations and guidance.

The FRC wanted to engage with citizens directly to ensure that the concerns and views of the general public are represented in the conduct of its work and development of its strategy to reflect the economic and social significance of the listed and large businesses that the FRC works with in the lives of many people in the UK.

The FRC therefore commissioned BritainThinks to conduct research with the public to understand citizens' views on the development and strategy of the FRC, how the FRC can best operate in the public interest and identify any gaps in expectations between what the public perceives to be important and what the Regulator delivers and can deliver. In particular, the research has focused on three key areas of regulation:

- corporate reporting
- corporate governance, and
- audit

- This research comes at a moment of transition for the FRC, following an independent review of the Regulator led by Sir John Kingman,¹ and the findings and conclusions of the research will feed into the future shape and strategy of the Regulator.

1.2. Research objectives

The research aimed to directly engage members of the public about the work of the Financial Reporting Council. It sought to gain insight into citizens' views of corporate reporting, corporate governance and audit, and their recommendations for how the Regulator can best operate in the public interest in the future.

Within this overarching aim, there were five key areas of focus:

1. Gain insight into citizens' spontaneous perceptions of businesses and what they deliver for the UK
2. Understand citizens' perspectives on how businesses operate and the duties of directors
3. Gain insight into citizens' expectations regarding what an audit is, does, and what they think it should do
4. Understand citizens' views on the benefits and challenges of the checks on companies currently delivered by the FRC: corporate reporting, corporate governance and audit
5. Develop a set of recommendations with citizens outlining their future vision for the Regulator to ensure that it is operating in the public interest.

¹ The report and recommendations from the review of the FRC can be found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf

1.3. Methodology

To ensure that members of the public were able to meaningfully participate in conversations about the work and strategy of the FRC, a deliberative research approach was used.

BritainThinks conducted three Citizens' Juries in London, Edinburgh and Coventry between 12th March and 3rd April 2019. Each Jury comprised 18-20 members of the public, recruited to reflect the local population and ensure that a broadly representative and diverse sample of the general public were consulted. Each Citizens' Jury lasted two days in order to ensure that there was enough time for participants to discuss and interrogate information about corporate reporting, corporate governance and audit, before discussing their views and developing recommendations.

These Citizens' Juries were followed by a reconvened workshop in London on 8th May 2019 with a selection of 24 jurors from across all three locations. This workshop lasted for half a day and provided an opportunity for participants to develop their thinking and co-create recommendations for the future with representatives from the FRC.

1.3.1. What is a Citizens' Jury?

A Citizens' Jury is an opportunity to understand where members of the public get to when they are given the time, space and information to consider an issue or policy debate in real depth, especially, as in this case, where public awareness of the issues and work under consideration is very low. The central objective of this type of consultation approach is to move participants from thinking only about 'me and mine' to a citizen's mindset, where they are considering the broader societal implications of complex trade-offs.

Citizens' Juries tend to take place over a reasonably long period of time (often two or more days), and involve a small group of citizens, recruited to reflect society more broadly.

Through a series of presentations, small group exercises and plenary debates, participants receive briefings on the issue from experts and have the opportunity to debate the issues in depth. They are then asked to work together to develop their own recommendations for the way forward.

1.3.2. Structure of the Citizens' Juries

Each Jury followed the same agenda, summarised in the table below.

Figure 2: Table providing an overview of the Citizens' Jury agenda

<p>Background views of business</p>	<ul style="list-style-type: none"> • Participants discussed their spontaneous views of companies and what they deliver for the UK. • Participants considered what information they need to know about companies' activities, focusing on four key relationships the public has with companies: <ul style="list-style-type: none"> ○ Customers ○ Employees ○ Investors and savers ○ Citizens
<p>Views on corporate reporting</p>	<ul style="list-style-type: none"> • Participants were provided with information about corporate reporting, including the FRC's current role in ensuring that the financial information complies with reporting requirements. • Participants discussed their views of corporate reporting, including the benefits and challenges they identified with corporate reporting in its current form. • Participants were also given the annual reports of one of three different FTSE 350 companies (a large pharmaceutical company, a large retail company, and a large entertainment company) to use as a case study. These case studies were chosen to ensure a good spread of company size and industry and to include examples with which participants would be more familiar.
<p>Views on corporate governance</p>	<ul style="list-style-type: none"> • Participants were provided with information about the role of boards, especially non-executive directors, and the UK Corporate Governance Code. • Participants discussed their views of corporate governance, including the benefits and challenges they identified with corporate governance in its current form.
<p>Views on audit</p>	<ul style="list-style-type: none"> • Participants were provided with information about audit and the role of the FRC in monitoring audit quality.

	<ul style="list-style-type: none"> • Participants discussed their views of audit, including the benefits and challenges that they identified with audit in its current form.
Priorities for the Regulator	<ul style="list-style-type: none"> • Participants identified their overarching criteria for effective regulation of companies and their directors. • Participants used these criteria to develop a set of recommendations for the FRC relating to each of corporate reporting, corporate governance and audit.

Please note that a more detailed version of the Jury agenda is available in the Appendix of this report.

1.3.4. Reconvened co-creative workshop

Following the three Citizens' Juries, a co-creative workshop was held with a selection of 24 jurors from all three locations plus representatives from the FRC. This workshop provided an opportunity to debate and further develop a number of the recommendations that participants had identified in the Juries.

Figure 3: Table providing an overview of the reconvened workshop agenda

Purposeful companies	<ul style="list-style-type: none"> • Participants discussed their views and opinions on the idea of 'purposeful companies'.
Developing a vision for regulation	<ul style="list-style-type: none"> • Jurors and FRC representatives refined the vision for regulation developed in the Citizens Juries, focusing on: <ul style="list-style-type: none"> ○ Defining what acting in the public interest means and how the Regulator can help companies achieve this ○ Identifying the balance between encouraging good corporate behaviour, reporting, and high-quality audit, and imposing sanctions in the event of any non-compliance with the codes and standards ○ Refining possible solutions to the challenges of audit in its current form ○ Exploring the roles and responsibilities of various company stakeholders and how stewardship fits into this

A more detailed version of the reconvened workshop agenda is available in the Appendix.

1.4. Recruitment and sampling

To ensure that a diverse sample of the general public was consulted in the research, a sample frame was designed for each Citizens' Jury. These sample specifications helped ensure that the 18-20 participants consulted in each location were broadly representative of the local population with regards to the following variables:

- **Life stage**, with a spread of participants who identified as pre-family, young family (children aged 11 or under), older family (children aged 12-20), empty nesters, or who do not have children
- **Gender**, with an equal mix of male and female participants in each Citizens' Jury
- **Socio-Economic Grade**, with a spread of ABC1 and C2DE participants in each Jury, broadly representative of the local population
- **Ethnicity**, ensuring representation of BAME participants in each Jury

In addition, specifications were made to ensure that all participants identified as being relatively confident and outgoing. This was stipulated to ensure that all participants were confident meeting new people and expressing their opinions, so that they would be comfortable participating in the research.

Further detail about the recruitment specification is given in the Appendix.

Participants were recruited through specialist, qualitative research recruiters located in Coventry, Edinburgh and London. These locally-based recruitment professionals used a combination of on-street recruitment, door-knocking, database recruitment and 'snowball' sampling through their network in order to recruit participants to the desired profile.

2. The context: citizens' background views on business

2.1. Chapter overview

This chapter explores participants' overarching perceptions of companies and what they deliver for the UK, as well as their views on the concept of 'purposeful companies'.

Spontaneously, jurors were more likely to have negative associations with large companies. However, on further reflection, their views of what companies can deliver for the UK did tend to be more positive, with many viewing companies' success as integral to a strong economy.

When exploring the key relationships that members of the public have with companies, jurors felt that:

- As **customers**, they were most likely to prioritise prices and products
- As **employees**, they mostly considered wages, opportunities and progression
- Acting as **investors**, their concerns and priorities surrounded the return and safety of investments
- As **citizens**, participants wanted to hold business to account on issues including taxes, environmental policy and investing in their local area

Given the general focus of the citizens on how companies' activities impacted on society and the environment more broadly, the FRC decided to explore one of the potential ways in which companies can reflect these broader concerns as part of their business models - "purposeful companies" - in the reconvened workshop. The concept of purposeful companies was viewed positively, with all participants feeling it to be important that companies work to create long-term value by serving the needs of society. However, there were some concerns over the ease with which the principles of purposeful companies could be integrated into the day-to-day running of a company.

2.2. Overarching perceptions of companies and what they deliver for the UK

What we did:

During the preliminary discussion in each of the Citizens' Juries, participants worked in small groups of 5 – 6 to list the words and phrases they associated with companies, and what they deliver for the UK. Following this discussion, participants worked together to create collages that represented their views, before sharing these with the rest of the Jury.

Participants were then given a presentation with a brief overview of what a company is and were introduced to the four key ways members of the public interact with companies:

- As customers
- As employees
- As investors and savers
- As citizens

Following this presentation, jurors discussed each of the relationships the public has with companies in more detail, focusing on what companies deliver for each audience and the information they would want to know about companies' activities as a result.

Citizens' spontaneous views of large companies tended to be negative. There was an overarching perception across all three Juries that large companies are primarily motivated by money and profit, resulting in initially high levels of suspicion and scepticism of companies' motives. This idea was often reinforced by coverage participants had seen on the news. For example, tax evasion and avoidance were an important theme for almost all participants, with participants spontaneously referring to companies such as Starbucks, Apple and Amazon as examples of this. High profile cases of business collapse also fed into this more negative viewpoint, with participants spontaneously referencing Carillion, BHS and (in Edinburgh) RBS.

“My feelings are negative. I mean it does depend, but when thinking about companies, I do generally think negative.”

(Coventry Jury)

“Are they paying enough tax? Are they even paying any tax?”

(London Jury)

While more negative sentiments were consistently expressed in all three Juries, the extent of jurors’ pessimism did vary between locations. Participants in London and Edinburgh expressed the most concern and suspicion. Notably, an Edinburgh juror added a picture of a ‘fat cat’ to his group collage to represent a ‘business person’ in London. This was one of many examples referenced by jurors showing companies – and those who run them – as removed, distant and driven solely by their own interests.

“The company you work for might have twenty different branches in twenty different countries, there are no geographical constraints. They can just go elsewhere for labour and not worry about you.”

(Edinburgh Jury)

“We started our collage with money and profit and media; we have a London fat cat!”

(Edinburgh Jury)

However, participants across each location were able to list more positive associations with large companies, particularly in Coventry where jurors spontaneously pointed to the impact of Jaguar Land Rover (JLR) on the local community. JLR is seen as a vital source of local employment, indirectly fueling confidence and the “multiplier effect” through spending in the local economy. However, the fact that one company can be so integral to local success was also a cause for concern. Participants described concerns about the negative impact on employees and the local community that business closure would have. For participants in Coventry, current uncertainty over the future of JLR in the area was a real concern.

“The businesses make the city alive. Now you can eat in different restaurants every night or day if you wanted to.”

(Coventry Jury)

Figure 4: Examples of collages produced by participants in Edinburgh (top), Coventry (middle) and London (bottom).





Completing the collage activity demonstrated jurors' implicit understanding of their differing relationships with companies. In each location, participants spontaneously discussed the public's relationships with companies as customers, employees, investors and citizens. The relationship between companies and citizens was an area where participants identified a number of important interactions.

Figure 5: Images of participants in the London Jury creating and discussing their collages.



Figure 6: Table providing an overview of the different relationships members of the public have with companies.

<p>Customers</p>	<ul style="list-style-type: none"> • As customers, participants highlighted the importance of companies in providing products and services. Universally, the price, quality and origin of a product (and whether it represents value for money) emerged as the most important information participants would want to know as a customer. • Jurors' long list of priorities as customers also included the environment, sustainability and understanding a company's ethics. • While a number of jurors did feel this information would dictate where they chose to purchase specific goods and services, the majority were quick to acknowledge that, in reality, it can be difficult to always act with these broader and ethical considerations in mind (for example, there is often a cost implication). <p><i>"I would deliberately try and use a local company, but I don't always know if it is and I wouldn't not buy something if it wasn't local."</i> (Edinburgh Jury)</p> <p><i>"Sustainability is very important to me, but I think generally most people do put price first."</i> (London Jury)</p>
<p>Employees</p>	<ul style="list-style-type: none"> • As employees, jurors felt it was most important to know about the salaries and employee benefits offered by a company, including holiday allowance, sick leave and pension schemes. • Participants also recognised a company's responsibility in promoting good treatment of staff, job development and progression. • Job security was also seen as key; jurors noted the shifting nature of employment, referencing short term or zero-hour contracts and the decline in 'jobs for life'. <p><i>"Salary, pensions and holiday have to be up near the top."</i> (London Jury)</p>

	<p><i>“Stability is very important – knowing you’re secure in work.”</i> (Coventry Jury)</p>
<p>Investors and savers</p>	<ul style="list-style-type: none"> • Central to overarching views of business, the profit and growth of companies were identified as priorities for investors and savers. • Several participants had pensions, and a number in each Jury had shares in companies. These jurors were quick to identify the security of any investment as the most important information they would need to know about a company. • While participants did raise ethical considerations that might be involved in choosing where and what to invest in, they did acknowledge this information was likely to be ‘nice to have’, as they felt that investors would be more likely to be motivated by making the greatest return possible on their investments. <p style="text-align: right;"><i>“It’s all about knowing the security of your investment.”</i> (London Jury)</p>
<p>Citizens</p>	<ul style="list-style-type: none"> • As citizens, jurors were most likely to identify a company’s values, ethics and approach to corporate and social responsibility as key priorities. • While there was an assumption that companies have a negative impact on the environment, with sustainability a secondary consideration to profit, the impact companies have on the environment was identified as a top priority for citizens. • Companies were also identified as playing an important role in contributing to the UK economy – both on a national and local level – as well as investing in innovation, research and development. However, top-of-mind concerns about whether companies pay a ‘fair’ amount of tax undermined this contribution for many participants in London, Edinburgh and Coventry.

- The impact that companies can have on local communities was also raised, particularly by jurors in Coventry. For these participants, companies' importance as local employers, directly and indirectly contributing to the local economy, is demonstrated through the dominance of Jaguar Land Rover in and around the city.
- In all three locations, jurors wanted to see companies supporting the local area by investing in the community, whether through training and development or utilising local supply chains where possible.

“Companies are not only providing a service or a product, they can have negative or positive impacts on our lives. Not just the economy but also the area. Companies do have a social responsibility.”

(Coventry Jury)

2.3. Purposeful companies

What we did:

In the reconvened workshop, jurors heard a presentation explaining the concept of 'purposeful companies' and the key principles they look to achieve. Information was taken from the "a Blueprint for Better Business*" proposal for purposeful companies, which sets out five key principles:

1. Delivering long-term, sustainable performance
2. Being honest and fair with customers and suppliers
3. Being a good citizen
4. Being a responsible and responsive employer
5. Being a guardian for future generations

It was noted to participants that there are a number of models and information sources available on this topic.

To aid discussions around how the principles of the purposeful company framework might operate in practice, jurors were shown information from four case study companies: a utility company; a large pharmaceutical company; a large retail company and a large entertainment company.

Following this, jurors discussed their initial thoughts on the concept of purposeful companies and any concerns they had.

* <https://www.blueprintforbusiness.org/principles-and-framework/>

2.3.1. Overarching views on purposeful companies

Overall, the concept of purposeful companies was positively received. All jurors felt it to be highly important that companies strive towards long-term growth that benefits society.

Views on how purposeful companies might operate in practice were more mixed. Whilst most participants agreed that successfully practising the principles of a purposeful company would be beneficial for both companies and wider stakeholders

in the long-term, concerns emerged around the risks associated with trying to integrate them into the day-to-day running of a company and against the potentially more short-term expectations of shareholders. Jurors also voiced concerns around the current absence of regulation or any widely-used accreditation system in this area.

Figure 7: Participants in London completing an activity exploring the information different audiences need to know about companies.



2.3.2. Benefits of purposeful companies

Jurors felt confident that successfully implementing the key principles of a purposeful company would contribute to the overall success (both financial and non-financial) of a company, as opposed to causing any detriment. They gave a few examples of this:

- **Being a responsible employer** by ensuring fair pay and good training opportunities, allows employees to thrive at work and boosts productivity across a company as a result.
- **Being responsive** and open to constructive criticism and public scrutiny, allows stakeholders to better hold a company to account.
- **Being fair and honest with customers and suppliers** ensures stronger long-term relationships between these parties, which, in turn, results in companies enjoying loyal customer bases and benefitting from good deals with suppliers.

- **Being a guardian for future generations**, for example by reducing carbon footprints, was felt to increasingly be a factor that employees, customers and citizens look for when deciding which companies to engage with. Jurors felt this could also encourage additional investment opportunities, due to the increasing popularity of ethically and socially responsible investments.

Participants also identified purposeful companies having a publicly declared purpose as positive. This was felt to keep companies more focused and encourage them to formulate specific, actionable goals to align with their purpose. Jurors highlighted that it can be hard for companies to stay focused on their purpose or broader vision whilst also dealing with the day-to-day demands placed on large companies. Clearly defining and publicly declaring their purpose was therefore felt to help a company focus their attention. In addition, by declaring their purpose, companies open themselves up to public scrutiny, empowering wider stakeholders and the public to hold that company to account.

“I work in the charity sector. Even those [smaller] companies lose focus on their vision...so if this purposeful company framework keeps them on track, I’m all for it.”
(Reconvened workshop)

“By publicly declaring it [their purpose] then, it may be that they’d actually have to take action?”
(Reconvened workshop)

2.3.3. Concerns about purposeful companies

Although jurors viewed the overall concept of purposeful companies positively, they had a number of concerns around how the theory might operate in practice.

Integrating the elements of being a purposeful company into the day-to-day running of a company was felt to take significant thought, time, investment and commitment.

- For example, jurors felt that trying to get employee buy-in to new initiatives could take a significant amount of effort before it becomes successfully implemented across the organisation.
- Jurors also felt that companies may have to take a short-term financial ‘hit’ in taking a step towards meeting their longer-term purpose which would not be welcomed by shareholders. An example identified by participants here was companies becoming a Living Wage employer.

“The hardest part for any company trying to implement change is getting buy-in, from all levels of staff. It can take years.”
(Coventry Jury)

Jurors also felt that being purposeful in the eyes of one audience can occasionally come at the detriment of another. Examples participants gave to support this view included:

- Providing customers with convenience through providing single-use plastic, adversely impacts the environment.
- A flight company investing in reducing carbon emissions may mean losing some investor support.

“Is it all just a grand statement? Is it all lip service?”
(Reconvened workshop)

Finally, jurors voiced concerns about the absence of regulation in this space, leading to fears that any company could seemingly label themselves as ‘purposeful’ regardless of their concrete achievements or policies.

- Participants felt that there is a chance some companies could do this without actually ‘practising what they preach’ in order to sell more products or gain investment.
- This concern was enhanced through a sense that companies could use the concept of being purposeful as a ‘marketing ploy’. Many jurors were immediately sceptical about the intentions of companies labelling themselves as purposeful, believing their primary motive to be profit rather than acting responsibly. There was therefore a level of doubt that companies will ever be able to move beyond profit as their main purpose.
- In addition, participants highlighted that without this space being externally regulated, stakeholders and citizens must try to make an informed judgement about an individual company from lengthy corporate reports, where it was felt that important information can be hidden.

To overcome the challenge posed by this lack of regulation, participants suggested introducing an accreditation system, which would allow members of the public to easily identify truly purposeful companies. Jurors felt this would help an individual decide between two employers or what company to buy a service from, for example, without having to filter through large amounts of information.

2.3.4. Jurors' priorities for purposeful companies

Jurors identified their priorities for purposeful companies, which they felt would help to make the concept meaningful in practice:

- 1. Promoting environmental sustainability.** Throughout the Citizens' Juries and at the reconvened workshop, acting responsibly in relation to the environment emerged as a top priority. It is perceived as an issue of great importance for everyone in society, but large companies are seen to have the responsibility to lead by example.

"Whenever we talk about advantage [of large companies] we have to talk about disadvantages, like the impact on the planet. They need to look at pollution and carbon footprint!"
(London Jury)

- 2. Looking after and amplifying the voice of employees.** Throughout the Juries, participants most often viewed themselves through the lenses of employees or consumers. Most individuals know or come into contact with employees in large companies, so this feels most tangible. In addition, investing in employees is seen to have a wide ripple effect across communities and society.

"The directors don't know what it's like to work on the shop floor. The employees and their opinions and perceptions of the company should be represented."
(Edinburgh Jury)

- 3. Being transparent and providing specific evidence for being purposeful.** Jurors noted that some of the principles of the purposeful company framework felt open to interpretation and it could be easy for companies to make unsubstantiated claims about being purposeful using 'wishy-washy' language. From the case studies discussed in the reconvened workshop, a utility company's approach to communicating their purposefulness was favoured by jurors for seeming the most specific, quantifiable and measurable.

"It's easy to write a cheque to say we're helping, but it would be more helpful if we could compare it to total profits."
(Reconvened workshop)

4. Addressing the need for ‘soft’ regulation and developing a clear accreditation system. As outlined above, jurors were concerned about the lack of regulation when it comes to large companies making claims about their purposefulness. Many did not want change to take the form of any ‘hard’ regulation or stricter legislation, but instead wanted to see a clear and accessible accreditation system to make the principles of purposeful companies feel more measurable and grounded. Jurors felt this would also give individuals a means by which to accurately judge and compare companies.

“This would not look like hard regulation or necessarily legalising it... just something to make it more measurable.”
(Reconvened workshop)

3. Views on corporate reporting

3.1. Chapter overview

What we did:

A presentation was given to jurors that introduced the idea that companies need to report on their activities and can do so through a number of public-facing reports (including annual reports). An overview of the information companies are required to report, the current role of the Regulator in checking companies' reporting, and the benefits and limitations of corporate reporting in its current form was also shared.

Following this presentation, each table listed any outstanding questions they had and asked these of an FRC representative, to clarify any issues prompted by the presentation and aid with knowledge building for the topic. Participants were also given the annual reports of one of three different FTSE 350 companies (a large pharmaceutical company, a large retail company, and a large entertainment company) to use as a case study. These case studies were chosen to ensure a good spread of company size and industry and to include examples with which participants would be more familiar.

Jurors then summarised what they thought were the key benefits and challenges of corporate reporting as a way of 'checking' the activities of a company, before identifying some possible solutions to these challenges.

Spontaneously, participants had low levels of awareness of corporate reporting and the majority did not know that large companies are legally required to publish certain information in their annual reports.

After learning more about and discussing corporate reporting in detail, jurors felt that it was a relatively effective check on business in its current form in promoting transparency in companies' activities, making it mandatory for companies to report on important information and providing a basis for comparability between different companies. However, many jurors also expressed concerns about the inaccessibility and length of annual reports, which they thought were clearly not designed with a 'non-expert' audience in mind.

3.2. Awareness and spontaneous perceptions

Spontaneous awareness of corporate reporting was low amongst participants overall. While some jurors were aware that companies do produce a public, end of year report, the majority were not aware that large companies are required to publish certain information in these annual reports by law.

Jurors who were aware that companies must publish information in annual reports tended to have been exposed to corporate reporting through working for a large company themselves. A small number had also been involved in some element of the production of that company's annual report, for example by providing or summarising information from a particular department to go into the annual report.

Whilst awareness of the requirement for companies to share certain types of information publicly was low, jurors were quick to identify the benefits of corporate reporting as a 'check' on companies' activity. In particular, participants felt that corporate reporting was important in driving transparency and ensuring companies are held to account in relation to their customers, employees and society, in addition to their investors.

"I think it's great companies have to publish these concrete reports about their activity in the public domain."
(London Jury)

"Corporate reporting forces that company to get their house in order, so to speak."
(London Jury)

However, views were more mixed as to who annual reports were written for, and who would be interested in reading them. Most jurors felt that corporate reports were predominantly intended for investors to read. However, on reflection, participants did feel that employees, consumers and citizens would be interested in some types of information included in an annual report. Specifically, many felt these groups would be interested in non-financial information (for example, employee treatment and environmental sustainability), with investors expected to be more interested in the financial statements.

A minority of jurors, who were mostly concentrated in the Coventry Jury, were sceptical that annual reports could ever be of interest to non-investor audiences. These jurors felt that the information included in annual reports can feel irrelevant to

the general public, particularly if that information is presented in a way that makes it difficult to digest and fully understand.

These overarching perceptions fed into the questions that jurors had for FRC experts about corporate reporting, which focused on the following themes:

- What is and is not mandatory for companies to report – including why reporting on sustainability in particular is not mandatory
- To what extent the information provided in corporate reports is independently checked and verified
- Why annual reports are so long, and to what extent there are guidelines or templates for companies to follow

For a full list of the questions about corporate reporting asked by jurors, please refer to the Appendix.

Figure 8: Image of a participants from the Edinburgh Jury.



3.3. Benefits of corporate reporting

After reflecting on the information provided, jurors identified a number of benefits of corporate reporting as a mechanism for regulating company activity. These benefits included:

1. Promoting transparency in companies' activities, making detailed information available in the public domain

2. Making it mandatory for companies to report on important information, especially financial information in annual reports as well as, more recently, gender pay gap information
3. Providing a basis for comparability between different companies and industries to contextualise analysis of their performance and viability

Annual reports were felt to reflect a company's current financial and, to an extent, non-financial, position. Jurors felt it was very important that companies share detailed information of this nature in the public domain where it can be accessed by all. The inner workings of large companies are often seen as opaque and annual reports were therefore perceived as key in promoting transparency and driving trust in companies amongst the public, employees and wider stakeholders. It was felt that companies can also use the process of producing a report as a useful exercise in itself in which to review the year, reflect on their current position, and the future business challenges that they may face.

“All of this information is available to consumers? You don't need permission? That's a good thing.”
(London)

Jurors were also pleased to see that reporting on certain information is mandatory for all companies, as it is seen as in the public interest for this information to be readily available. Knowing that the Regulator reviews directors' reports and the accounts of large public and private companies across a sample of annual reports also provides reassurance to wider audiences that the information is accurate. It is felt to reduce the chance of any errors that could cause either short-term or long-term damage to the company and its stakeholders.

Corporate reporting was also felt to encourage companies to report on non-financial information, including the gender pay gap and environmental sustainability. Although it is not mandatory to report on certain types of non-financial information such as environmental strategy, jurors felt it was important that companies are encouraged to do this by the Regulator, given the perceived great importance of this area to society. Jurors also felt that large companies are increasingly under pressure to report on these types of information in order to uphold their corporate reputation.

Finally, jurors felt corporate reports provided a basis for comparability between different companies and across industries. As there are certain types of information that must be included in the annual reports of all companies – for example, essential financial information – there is a standard by which the public and stakeholders can

compare between companies directly. Jurors felt this was important for a number of different audiences beyond investors. For example, they identified that potential employees may want to ensure a company seems financially viable before accepting a job offer. A couple of participants across the Juries had previously engaged with companies' annual reports for this reason.

Figure 9: Image showing a close-up of a worksheet exploring the benefits and limitations of corporate reporting.

What are the benefits of corporate reporting?	What are the challenges corporate reporting?
Transparency (certain amount) Shows they're honest We are all investors	...but not taxes .. to a layperson, not a clear.

3.4. Limitations of corporate reporting

Jurors identified a number of limitations to corporate reporting as a mechanism for regulating company activity. These included:

1. Corporate reports are inaccessible for non-expert audiences, including the language used, format and length of annual reports specifically.
2. Information jurors identified as important, including information about environmental sustainability and company values, was not mandatory for companies to report on.
3. The information presented in annual reports was largely to be taken at face value and trusted to be accurate.

A key limitation of corporate reporting identified by jurors was the language and format of annual reports, which were seen as inaccessible and difficult to navigate. The text in the example annual reports of the case study organisations, especially the large pharmaceutical company, was seen as extremely dense, with overly-

complicated language that was difficult for non-expert audiences to understand. A small minority expressed a view that this language had been used 'deliberately' to make the report harder to comprehend and to potentially 'hide' more negative information from readers. The formatting of these reports was also felt to make it difficult to navigate, with few images or diagrams to break up blocks of text.

"It's hard language, they haven't applied plain English and there are no clear graphs or diagrams."

(Edinburgh Jury)

Reports were also perceived to be excessively long, which participants felt can deter non-expert audiences from engaging with them. Jurors felt the length of the case study annual reports (all of which were well over 100 pages long) would be off-putting for the average person who might be interested in reading the report, as it would require significant effort to sift through and locate relevant information.

"It's disappointing that they have a document this long, they are missing an opportunity by giving us this."

(Edinburgh Jury)

Jurors were often surprised that it is not mandatory for companies to report on sustainability and other non-financial information, nor is this independently checked or verified by the Regulator. Participants felt that certain types of non-financial information, particularly relating to environmental concerns and employee treatment, should be mandatory for companies to report, considering the potential impact large companies can have in these areas. It was also a concern for some that this information is not independently checked by the Regulator, meaning companies could mislead readers by presenting inaccurate or incomplete information.

Finally, jurors were concerned at the length of time it can take to produce corporate reports. Jurors felt this could undermine how useful reports can be, if by the time they are made publicly available, the information in the report risks quickly becoming 'out-of-date'. In the context of the current political and economic environment, which is felt to be particularly fast-moving, companies were seen to be facing a huge challenge in trying to keep on top of this process.

4. Views on corporate governance

4.1. Chapter overview

What we did:

Information was presented to participants on key elements of the UK Corporate Governance Code, the structure and responsibilities of company boards and the role of shareholders.

Following this presentation, each table listed any outstanding questions and had the opportunity to pose these to an FRC representative, to clarify any issues arising from the presentation and aid with knowledge building for the topic.

Participants were given a FTSE 350 company (a large pharmaceutical company, a large retail company, and a large entertainment company) to use as a case study, to help bring conversations about corporate structure and the role of non-executive directors to life. Jurors were also given summarised versions of the UK Corporate Governance Code so they could better understand the current language and criteria.

Participants discussed the benefits and limitations of corporate governance as a check on business, before thinking about potential solutions to the challenges they identified (which are discussed in Chapter 8 of this report).

Figure 10: Image of participants discussing their FTSE 350 case study company in the Coventry Jury.



In each Citizens' Jury, participants were introduced to corporate governance – the way in which companies are directed and controlled – and the FRC's role in setting standards. While spontaneous awareness of corporate governance was low, participants were pleased to see a framework outlining best practice for corporate governance in place.

However, after reflecting on the information provided and discussing this in more detail, participants had concerns that the UK Corporate Governance Code did not go far enough to consistently prevent non-compliance, and voiced fears about the independence of boards of directors being compromised.

4.2. Awareness and spontaneous perceptions

Spontaneously, there was little awareness and understanding of corporate governance amongst the majority of participants. Jurors were more familiar with the existence of non-executive directors and the role of a board of directors to some extent, but most had not heard of the UK Corporate Governance Code, nor the FRC's role in setting and maintaining the principles of good UK corporate governance.

Many were initially pleasantly surprised to see these guidelines and 'checks' existed as a way of ensuring companies behave properly and fairly. In particular, jurors felt that non-executive directors play an important role in providing a point of challenge through their independence, acting as a form of 'internal regulation' to keep a company on track.

"I think the non-executive directors would bring their expertise to the table...they're in a different position to be able to make that check."

(Coventry Jury)

However, jurors found the concept of a 'code' of conduct for corporate governance which isn't bound by law to be confusing. The majority felt that regulation ultimately needs to go further, through legislating on the Corporate Governance Code and strengthening sanctions for not applying the principles.

These spontaneous and overarching perceptions fed into the questions that jurors had for FRC experts in London, Edinburgh and Coventry, which covered four broad themes:

- How, if at all, the Regulator is able to enforce the UK Corporate Governance Code
- What are the incentives to encourage compliance, as well as what happens if a company does *not* comply with the UK Corporate Governance Code
- The structure and make-up of a company board
- How non-executive directors are appointed, how independent they are and how they are remunerated

For a full list of questions about corporate governance asked by jurors, please refer to the Appendix.

4.3. Benefits of corporate governance

After reflecting on the information provided, jurors identified a number of benefits of corporate governance as a mechanism for regulating company activity. These benefits included:

4. The UK Corporate Governance Code promotes good practice in corporate behaviour, setting guidelines for companies to follow.
5. Non-executive directors act as an independent voice on a board, allowing them to challenge company directors and bring a fresh perspective.
6. Non-executive directors also bring a variety of skills and experience to a board of directors.

Participants could see a number of benefits to corporate governance. Foremost of these was the view that the UK Corporate Governance Code promotes good practice for companies to adopt. Jurors felt that this sets parameters for companies to operate within, with a clear set of guidelines for them to follow. Jurors also responded positively to the 'comply or explain' model and were pleased to see that any non-compliance with the Code must be explained. This was felt to act as a deterrent to any poor practice or wrong-doing.

Non-executive directors were seen to play a vital role in acting as a 'check' on both the company and its board. They were felt to offer an independent voice, able both to challenge executive directors and offer a fresh perspective. For this reason, it was felt to be important to achieve a sufficient balance in terms of the numbers of non-executive directors on a board to ensure this is retained. When jurors were shown information on a large entertainment company's board and directors, for example,

they were pleased to see there were a higher number of non-executive directors than directors. This was felt to offer a valuable and impartial point of view and challenge.

Non-executive directors were also felt to bring real expertise and experience to a company. Jurors were pleased to see non-executive directors appointed for their particular skills, honed in different fields and industries, ensuring a variety of views are included and promoted on the board. For example, when reviewing the case studies, jurors highlighted the collective expertise of the board, with a broad range of skills and experience represented amongst board members.

“I am happy with the directors, here at [a large retail company] – there’s someone from finance, someone from a marketing perspective, that expertise, you need all that.”

(London Jury)

“It looks like they [large pharmaceutical company board] have been cherry-picked for their skills.”

(London Jury)

Figure 11: Image of a participant from the London Jury.



4.4. Limitations of corporate governance

Jurors identified a number of limitations of corporate governance as a mechanism for regulating company activity. These included:

5. The UK Corporate Governance Code is applied on a “comply or explain” basis rather than enshrined in law which challenges the Regulator’s ability to hold companies to account.
6. The Code is also felt to lack definitive metrics and measures by which to determine levels of compliance, making it harder to implement consistently.
7. Jurors expressed concerns about the independence of non-executive directors, with few checks or processes in place to prevent the appointments of non-executive directors with potential conflicts of interest.
8. Jurors also had doubts about the effectiveness of shareholders in holding companies and directors to account through their ability to vote at general meetings.

Across the three Juries, concerns about the limitations and challenges of corporate governance were felt to outweigh the benefits. Concerns tended to centre on the Regulator’s lack of power to hold non-compliant companies to account, and the potential for the independence of non-executive directors to be compromised.

Jurors felt that because the fact that the UK Corporate Governance Code is not mandatory, in the sense that companies must “comply or explain”, challenges the Regulator’s ability to hold companies to account and ensure compliance. There were felt to be limited consequences for non-compliance if directors or boards do not apply the Code.

One example noted by jurors was that the Regulator has no ability to sanction directors who are not accountants, which they felt could mean individual ‘offenders’ may be able to ‘slip through the net’.

The language within the Code was also felt to be open to different interpretations and there were a lack of definitive metrics and measures by which to determine levels of compliance. Some jurors saw this as an advantage, in that it allows companies to implement elements of the Code in a way that works for their business, appreciating there isn’t a one-size-fits-all approach. However, others flagged that this also means it can be very difficult for the Regulator to ensure the Code is being

implemented *consistently* across different companies and sectors. There were concerns that certain companies may be able to exploit loopholes and not fully comply with the Code.

“There should be more of a blacklist for individuals, if you don’t follow the [Corporate Governance] Code. There should be sanctions or something.”
(London Jury)

Across all three Juries, participants had concerns about upholding and promoting the independence of non-executive directors. In particular, jurors felt that the fact that non-executive directors can sit on multiple boards at once could potentially limit their availability to properly fulfil responsibilities and/or cause a conflict of interest. This also led to fears about ‘career’ non-executive directors who might not be taking their duties as seriously.

Another limitation identified by jurors was the length of time for which non-executive directors can serve on boards, with fears they could have their independence and impartial view compromised, if serving over a longer period of time. Jurors pointed to the large pharmaceutical company case study, where all non-executive directors had joined the board recently and rotated relatively frequently (c. 2-5 years), as an example of best practice. This was felt to ensure that non-executive directors continue to put forward an independent viewpoint and view issues with a fresh perspective. To overcome this challenge, jurors suggested that the amount of time a non-executive director can stay on any board should be limited. Many did appreciate, however, the need to spend sufficient time building up a good understanding of the company and how it operates to be able to operate efficiently.

There were also felt to be few checks or processes in place to prevent the appointments of non-executive directors with potential conflicts of interest, and jurors were quick to mention the likelihood of a “jobs for the boys” culture. This view fed into wider discussions about the lack of diversity on boards, and suggestions for how to move beyond a ‘male, pale and stale’ atmosphere. Participants were quick to highlight ‘good’ examples of diversity in case study companies discussed in the Juries, particularly the proportion of women on a board and the range of directors’ experience and backgrounds.

“The Chief Executive on this board [large retail company] is a Lord, and it just makes you think he’s a multi-millionaire.”
(London Jury)

*“She [large retail company Group Sales and Marketing Director] is more inspiring
– she was a sales assistant, and now she’s on the board.”*

(London Jury)

*“It [large entertainment company] seems like an old friend’s club. Only one [person]
has worked her way up.”*

(Edinburgh Jury)

Several jurors, especially those in Coventry, also had doubts about the effectiveness of shareholders in holding companies and directors to account through their ability to vote at annual general meetings. They felt that it would be easy for power to fall to a few majority shareholders, and therefore not fully represent the collective view. Jurors also commented that shareholders could also have vested interests as, by definition, they are mainly motivated by profit and the successful running of the company in which they have invested. Jurors suggested that, as a result, they might ‘turn a blind eye’ to potential wrong-doing if they stood to benefit financially. Ultimately, there was some scepticism as to how far shareholders could truly represent the public interest through their ability to hold companies to account in this way.

*“I just feel shareholders are motivated by one thing and one thing only at the end of
it...it’s money.”*

(Coventry Jury)

4.5. Stewardship of companies

What we did:

In the reconvened workshop, jurors explored the roles and responsibilities of different stakeholders involved in the successful running of a company. Participants also discussed the concept of stewardship to assess levels of awareness and gauge initial views. As part of this, a definition of stewardship, taken from the FRC's current Stewardship Code consultation, was shared with jurors:

Stewardship is the responsible allocation and management of investments to create sustainable value for investors, the economy and society. Effective stewardship benefits companies, investors and the economy as a whole. This new definition applies to those who look after the assets of investors, including asset owners, asset managers, proxy advisers and investment consultants. The FRC is responsible for setting and monitoring compliance with the UK Stewardship Code, which looks to enhance the quality of engagement between investors and companies to facilitate this.

Participants were initially asked to list the key stakeholder groups they felt contributed towards the success of companies, before discussing each of these in turn to explore what jurors saw as their key roles and responsibilities.

Jurors were then asked how effectively each stakeholder group is able to promote the success of a company including through good governance, clear reporting and

4.5.1. Citizens' views on the concept of stewardship

Participants initially found the concept of stewardship confusing, and it was not an idea that they were familiar with or found easy to apply to companies and how they are run.

On reflection, jurors understood the idea of 'stewards' as individuals or groups who have some responsibility for the running of a company and ensuring its stability – or, as some jurors described it, for "steering the ship". Participants supported the idea that this forms another means through which directors can be held to account.

Participants found the definition provided in the reconvened workshop – focussing on investors, who are responsible for their investment and by extension for what

happens to the company – difficult to understand. While they could see how this was a key responsibility for this audience, they felt it could have a wider application to incorporate other stakeholders including company directors, employees and members of the public.

In addition, jurors voiced concerns about stewardship falling exclusively to shareholders. Shareholders were felt to have vested interests in a company as a result of having money invested in it, making it more difficult to retain real independence and challenge.

“Anyone could become an investor. If I give someone £100 to do something with it, if it goes wrong, he’s the person I’ll hold responsible.”

(Reconvened workshop)

“If you’re an investor, aren’t you going to be interested in what you’re investing in?”

(Reconvened workshop)

4.5.2. The roles and responsibilities of different stakeholders

When asked to list the different stakeholder groups that might have some responsibility for the successful running of a company, jurors spontaneously mentioned:

- Company directors, or the CEO
- The board, including non-executive directors
- Employees
- Suppliers and customers
- Investors and shareholders
- Regulators, including the FRC
- Government
- Banks
- Local communities and civil society groups e.g. campaign groups

Company directors were felt to have the greatest responsibility for ensuring a company’s success. As well as generating business, ensuring profitability and the stability of a company, jurors felt that company directors would be fully involved in setting a company’s mission and purpose more generally. Directors were also seen

to be responsible for setting standards of moral and ethical behaviour within a company, instilling a desirable organisational culture, and ensuring the company and its workforce act with transparency and integrity.

“It’s not purely about profits, things like product development and training and strategy and thinking forward and marketing are really important.”

(Reconvened workshop)

“Within the success of a company, there’s so much. It’s not just looking at the bottom line, it includes company culture, all those things.”

(Reconvened workshop)

The key responsibility identified for **non-executive directors** was their ability to constructively challenge company directors and the board, bringing a fresh perspective to ensure that a company is operating in the public interest. As part of this, they were seen to have responsibility for bringing new ideas, often inspired by their experience and expertise in other fields, to help encourage innovation and development. Non-executive directors are seen to act as a ‘moral compass’ and have real responsibility for helping set a company’s culture and values. In addition, by working with company directors and the board they have shared responsibility for setting the direction and strategy of the company. Jurors also saw some responsibility for non-executive directors in appointing and determining appropriate levels of remuneration of executive directors.

Jurors identified a number of wider stakeholders involved in various aspects of a company’s activities. The most prominent of these were **employees**. They are seen to have a real role in holding management to account through their ability to whistle-blow and in raising any internal issues (for example, with employee rights or health and safety). Jurors felt strongly that any workforce should be encouraged to exercise this right and, by speaking up, are able to act as an invaluable check and balance on how a business is run. Employees were also felt to have responsibility for reinforcing and promoting an attractive company culture, as well as showing an interest in the success of the company and other employees more widely. Overall, this stakeholder audience was felt to play an important role in the successful running of a company – as, ultimately, the success of a company was felt to depend on its workforce.

Jurors also identified **shareholders and investors** – both institutional and individual – as having a level of responsibility for the successful running of a company – as per the technical definition of stewardship. This responsibility was seen as manifesting

itself through their ability to select board directors and hold a company to account through voting at the Annual General Meeting. Participants felt that shareholders also have a duty to remain actively engaged with a company and their activity, especially over a longer period of time. Investors were felt to support a company both directly (through their investment) but also indirectly, by acting as an ‘unofficial advocate’ of the company and endorsing it to others.

The public were also seen to have a real responsibility in acting as a check on a company’s activity. Jurors commented on the ‘buying power’ of the public, and their ability to ‘vote with their feet’ (effectively removing their support from a company by choosing to purchase goods and services elsewhere). In the Citizens’ Juries, participants also talked about the public’s ability to use social media to hold companies to account. Across all locations, participants identified the growing size and international scale of companies as having increased their complexity and power. They felt social media was a helpful mechanism for holding these companies to account, providing greater access points to large companies that would otherwise seem ‘inaccessible’, and allowing unethical behavior to be exposed.

“We have a lot more involvement as a world together and there are so many movements on social media that make a change – companies have to listen and are involved in that.”
(London Jury)

Other wider stakeholder groups mentioned included:

- **Trade unions**, who were identified as having a responsibility in representing the interest of workers and negotiating contracts, pay, pensions and benefits
- **Banks and financial institutions**, who were felt to have a responsibility in lending money to a company
- **The Government**, who were felt to be responsible both for appointing the Regulator, and for providing the legal framework in which they operate. Jurors also saw a role for the Government in setting and collecting tax

The **role of regulation** was also identified as important for the successful running of a company. For example, the FRC was seen to have responsibility for setting the standards and frameworks within which companies should operate, and ensuring companies comply with these. Jurors felt the Regulator also had a role in encouraging transparency to ensure companies are operating in the public interest and can therefore be held more accountable.

Overall, participants saw company directors as the most responsible for the success and life span of the company. This is in terms of the day-to-day running of a company as well as the strategy, mission and direction of a company. However, jurors also felt that the success of a company depends heavily on its workforce – if employees are unhappy with their conditions or how they are treated, there was felt to be a strong likelihood that that company will be less prosperous. Citizens were also seen to have the potential to play an important role in holding companies to account, especially as consumers, although there was a sense among jurors that the public often don't have the necessary information to do so with confidence.

"I think if they're making a product and people buy it, this has the most impact."

(Reconvened workshop)

5. Views on audit and audit quality

5.1. Chapter overview

What we did:

Information was presented to participants by an FRC audit expert, covering the purpose and process of audit, the types of companies that get audited and the FRC's role in overseeing audit quality.

Following this presentation, participants listed any outstanding questions and had the opportunity to pose these to the FRC audit representative, to clarify any issues prompted by the presentation and aid with knowledge building for the topic.

Participants were also given a set of recent examples of audit cases investigated by the FRC Enforcement Team and provided with publicly available information about them to use as case studies, to help bring conversations about the purpose of audit to life.

Participants discussed their expectations of audit, as well as benefits and limitations of audit as a check on business, before thinking about potential solutions to the challenges they identified (which are discussed in Chapter 8).

Participants did have some spontaneous awareness of audit, although jurors' understanding of what an audit entails tended to be quite vague and related to a broad idea of "checking" companies' accounts or "audit" in its broadest sense, as the inspection or examination of *something* if not necessarily accounts. Jurors tended to voice an expectation that audit would take a broader judgement on whether companies were operating in a financially viable way, which would include forward-looking as well as historic information, with consideration of the environment and society as a whole, rather than simply verifying financial information to ensure its material accuracy and that the entity has complied with legal and regulatory requirements. Participants also tended to assume that audit would take a full and detailed view of a company and its accounts.

On reflection, jurors saw audit as the check on companies' activities which should, in theory, be the strongest and most robust. However, while participants could identify benefits of the way in which audits are conducted, awareness of recent high-profile failures, including Carillion and BHS, severely limited participants' confidence in how successful effective audits can truly be as a check on companies' activities. Their

confidence was also undermined by concerns about areas where companies did not conform with their understanding of the law, but are in fact operating legally.

5.2. Awareness and spontaneous perceptions

Participants did have some spontaneous awareness of audit, although jurors' understanding of what an audit entails tended to be quite vague and related to a broad idea of "checking" companies' accounts.

Whilst some participants had heard of certain 'Big Four' audit firms (particularly KPMG, often in connection with media coverage about Carillion), awareness of these audit firms was not widespread across the three Juries. Participants had little spontaneous awareness of the 'Big Four' audit firms' dominance in the market and found this information surprising. For many, it raised questions about the level of competition for audit contracts and length of tenure, and audit firms wishing to sell non-audit services, which added to concerns about the level of independence audit firms have from the companies they are auditing.

In principle, participants were also pleased to learn that the FRC has a role in setting standards and monitoring audit quality. Whilst all jurors were satisfied that the Regulator has the powers to sanction and ban individual auditors for misconduct, many felt that the Regulator's powers are currently too limited to enforce independence and high-quality audit successfully and consistently.

"Doesn't all of this leave room for corruption? If you have an auditor for twenty years, you wouldn't want to raise any problems for fear of losing the contract."

(London Jury)

In line with these initial reactions, participants' questions to the FRC audit expert centred on four key themes:

1. Why the current audit system had not been able to prevent recent high-profile business failures (particularly Carillion and BHS)
2. How independent the audit firms are, and how they are appointed and paid
3. How auditors select the information they look at and how they distinguish between deliberate misconduct vs. genuine human error
4. What level and types of sanctions are available to the Regulator for punishing misconduct within both audit firms and companies

A full list of the key questions asked across all three Citizen's Juries is included in the Appendix.

5.3. Benefits of audit

After reflecting on the information provided, participants tended to see audit as the check on companies' activities which should, in theory, be the strongest and most robust. They identified several key benefits:

1. Promoting transparency and assurance of company financial activity.
2. Auditors and audit firms providing an independent check on companies' accounts.
3. The expertise of individual auditors and audit firms with a high bar for who can undertake audit.
4. The Regulator's role in ensuring quality and standards are maintained through spot-checks – the programme of audit quality reviews.

Figure 12: Image showing jurors in Edinburgh receiving a presentation on the role of audit from an FRC expert.



However, jurors did tend to have questions – and a healthy amount of scepticism – about to what degree some of these benefits were being achieved in practice.

Participants saw one of the key benefits of audit to be the fact that it promotes transparency of companies' activities, through validating their reported financial performance. Having a system of audit in place to check the key financial figures was seen as important in encouraging companies to report data accurately and in accordance with the rules and guidelines set by the Regulator.

Participants were also pleased to discover that findings of audit are published in the public domain, which was seen to drive transparency and ensure information is available to all in principle (even if few participants thought they would be likely to engage with the Auditors' Report in its current format).

"It's really important to have a system in place and that the basic and fundamental checks of the numbers are there."

(Edinburgh Jury)

"It provides transparency for employees, shareholders, customers and citizens."

(Coventry Jury)

Independence was seen as both a fundamental benefit and requirement of audit. Participants felt the principle of auditors being separate to the company being audited was very important and saw time-limits on the length of audit contracts as vital to underpinning this independence. However, many felt that current regulation does not go far enough in ensuring this independence is retained.

"They need to be independent, otherwise they can't check properly, can they?"

(London Jury)

The strong controls over the requirements of who conducts audits was seen as a key strength of the current system. Participants were reassured by the expertise of auditors, particularly the fact that they must hold a qualification specifically in audit and have a certificate to practice. This went some way to assuaging concerns about the fact that auditors rely on their own judgement when choosing what information to review within an audit itself. The ability of the Regulator to remove this certificate and ban auditors for misconduct also reassured jurors of the Regulator's ability to hold auditors and audit firms to account.

"It's good that auditors have to get a qualification in audit rather than just being someone generally financial."

(London Jury)

The use of spot-checks was also highlighted as a benefit of how the Regulator oversees the system, with a programme of regular audit quality reviews, thus enabling them to monitor the quality of work being carried out. Again, jurors raised questions about the powers available to the Regulator to ensure high levels of audit quality are maintained and what they can do if firms consistently produce work that falls below audit standards.

“It’s good that they’re checking these audits against their standards but what happens if they’re bad? It feels like more should be done to make sure they [audit firms] are meeting them [the standards].”

(London Jury)

5.4. Limitations of audit

In order for audit to be a more effective check on companies, participants felt the system needed an ‘overhaul’. Participants were able to identify several limitations of the current system of audit, focused on the following three areas:

1. The gap in participants’ expectations for audit and what it can achieve.
2. Whether independence can be guaranteed in practice, especially in the context of the ‘Big Four’ audit firms dominating the market.
3. The Regulator is currently limited in its powers to both encourage high quality audits and sanction auditors and companies.

Jurors commented on the fact there is a significant gap between their expectations of audit, and what audit is actually required by law to deliver. Participants expected an audit to ensure, as far as possible, the future success of a company in order to minimise any negative impact on employees, customers and local communities. Some jurors were therefore surprised to learn of the strict focus on compliance with the letter of the law, rather than making assessments over whether certain business practices were sustainable or ethical. In addition, participants’ awareness of recent high-profile company failures, in particular Carillion and BHS, had eroded the confidence of many in audit as a concept and in the audit firms behind them.

Participants also expected that audit would take a full view of a company, in order to catch any fraud or issues at any level. The concept of materiality was, therefore, both unfamiliar and seen as a real limitation. However, there was also recognition that applying a lower level of materiality would increase work and the cost of audit.

“You can’t look at every transaction, but what is the process to select what gets looked into?”

(Edinburgh Jury)

The level of independence of auditors from the companies they are auditing was also something jurors questioned. Whilst participants saw the principle of independence as a fundamental benefit of the audit process, they tended to feel that more needed to be done to ensure it is consistently upheld. In particular, most participants saw the current 20-year maximum audit term limit as excessive and likely to lead to an erosion of independence due to familiarity or complacency, resulting in either misconduct or low-quality audit. Whilst some acknowledged the benefit of having an audit firm serve for multiple years, in order to build an understanding of the company, many felt that, on balance, this could be gained over a few years. A shorter maximum contract length of 5-10 years was therefore suggested as an alternative.

“20 years seems a really long time, surely that leads to a lack of independence or just complacency.”

(Coventry Jury)

“It’s almost like everyone else is in each other’s pocket.”

(Edinburgh Jury)

Some participants were also uncomfortable with the idea of companies selecting and paying their own audit firms and audit partners. These jurors felt this could drive auditors to give favourable results in order to ensure they win contracts over competitors. Similarly, auditors were felt to be disincentivised to flag issues or negative findings if it could risk their ability to win further audit contracts, especially in light of the expense of tendering.

The ‘Big Four’s’ domination of the audit market was seen by the jurors as being symptomatic of these limitations, due to the expense of tendering and companies’ familiarity with audit firms. Some participants felt that more should be done to encourage competition and expand the market, particularly by addressing the cost and complexity of the tendering process and process by which auditors are then selected. Rules preventing audit firms delivering management and consultancy services to companies they are auditing were recognised to be important, but were also felt to further narrow which of the ‘Big Four’ audit firms are available for companies to choose from when tendering.

Figure 13: Image showing a BritainThinks moderator leading a discussion about perceptions of audit in the Edinburgh Jury.



Participants tended to feel that the FRC is currently limited in its powers to both encourage high quality audits and sanction auditors and firms falling short of the standards it sets. This was evidenced to them by the fact that around a third of audits are considered sub-par, which many considered significant.

Whilst they felt the Regulator's power to sanction individual auditors was important, they thought this power should extend to cover everyone involved in the process of audit, including company directors. Many were also sceptical about the effectiveness of sanctions, particularly at an individual level. There was a sense that audit firm partners tend to have their fines paid by their firms, resulting in limited consequences for individual misconduct. Fines were also seen as having minimal impact compared to the 'Big Four's' turnover and the amount of money at stake in audit contracts.

"They [the Regulator] should be auditing [reviewing] more often and it just comes back to this need for more teeth. They should have more power to hold people to account."

(Coventry Jury)

6. Citizens' criteria for effective regulation

6.1. Chapter overview

What we did:

After receiving information about and discussing corporate reporting, corporate governance and audit in depth, participants in each Jury worked together to develop key overarching criteria that the Regulator should adhere to, to ensure that its work aligns with the public interest.

Building on the benefits and challenges they identified with corporate reporting, corporate governance and audit, participants then developed a vision for each of these three mechanisms that meets their criteria for effective regulation.

In London, Edinburgh and Coventry, participants most commonly described corporate reporting, corporate governance and audit as mechanisms to check company activity as 'fine', 'adequate' or with 'room for improvement'. As a result, there was a strong sense that the Regulator needed to provide a robust set of checks and balances to ensure that companies are operating in the public interest.

Across all three Juries, participants decided that the four, key, overarching criteria should be that:

1. The Regulator should be given enhanced power and 'teeth' to hold companies to account
2. The Regulator should hold individuals as well as companies to account to deter non-compliance with the codes and standards
3. The Regulator should define and operate clearly in the public interest
4. The Regulator should keep the principle of independence as a key priority

6.2. Providing the Regulator with enhanced power and 'teeth'

Participants wanted to see the Regulator given greater powers to hold companies to account but were somewhat divided over how best to achieve this. A number of jurors, particularly those in London, initially called for the introduction of legislative

changes to enable this to happen. These jurors felt that, until codes and standards are enshrined in law and enforced robustly, companies will always try to ‘push’ the boundaries of compliance. It was felt that increasing the Regulator’s powers – and therefore having greater ability to *enforce* action, rather than trust companies to follow guidelines – would help clarify ‘any grey areas’ or inconsistencies in how companies report information, adhere to the UK Corporate Governance Code or in how audits are conducted.

“They [the FRC] have no teeth. They come up with things that they think companies should be doing but they lack any power to force or punish them in an appropriate way.”
(Edinburgh Jury)

“They can bark but they can’t bite. At the moment it’s like a slap on the wrist.”
(London Jury)

However, a number of jurors in Edinburgh and Coventry also acknowledged that any increase in regulation should not “stifle” companies’ ability to operate and flourish, or discourage new enterprise, and felt it was important to reach a balance in terms of encouraging and incentivising compliance and tightening regulation and imposing greater sanctions in the event of any wrong-doing.

Participants explored this balance – and how the Regulator can best achieve this – in more detail in the reconvened workshop. Upon further reflection and discussion, participants identified several ‘trade-offs’, or ways in which the FRC can regulate effectively and keep companies and individuals in check, without stifling entrepreneurship, innovation and growth.

In the reconvened workshop, jurors were consistent in their views on how the Regulator can reduce the risk of non-compliance with the codes and standards in corporate reporting, governance and audit, whilst encouraging growth and innovation in companies and engagement in the relevant professions. Ultimately, many felt that the relationship between the Regulator and companies needs to fundamentally change to maintain this healthy balance, in two key ways:

1. **The Regulator needs to have more power to interact with companies ‘early on’.** Jurors felt that early interventions in the event of any issues arising would help the Regulator avoid imposing stricter punishments, by preventing more major issues from developing. There was support for these interventions taking the form of both announced and unannounced ‘Ofsted-style’ spot

checks. Importantly, these ‘spot checks’ should be seen as an opportunity for the Regulator to provide constructive feedback and support on any early problems, giving the chance for companies to nip any issues ‘in the bud’.

2. The Regulator needs to not be seen as ‘scary’, but as a ‘critical friend’.

Jurors saw a clear role for the Regulator in being more proactive in contacting companies to provide advice, support and encouragement. For example, some jurors suggested this could take the form of a helpline or ‘drop in sessions’ where companies could meet and discuss any issues with a representative from the FRC.

Jurors felt that the Regulator needs to set out a clear, unambiguous procedure for what happens if an error is spotted, including the number of times a company can try to resolve any errors once they have been identified. If these guidelines are clear, and if companies are encouraged to have an open dialogue with the FRC, jurors felt this would reduce the likelihood of the Regulator needing to impose stricter sanctions, helping to keep more of a balance overall.

In the reconvened workshop, jurors also discussed how to set and maintain a balance between ‘punishment’ of any misdemeanours whilst still encouraging compliance. Participants felt that, rather than prioritising either the ‘carrot’ or the ‘stick’ over the other, both could be used more effectively: there needs to be more ‘encouragement’ of good behaviour early on in the form of spot checks and constructive feedback from the Regulator, but, where needed, sanctions should ultimately be deployed and could be strengthened to better effect.

“We need a backbone of strong punishment as the last resort, but there needs to be encouragement too or all these companies might leave the UK! The Regulator should be seen as someone to work with.”
(Coventry Jury)

Jurors felt there could be a better support system for companies, both to help prevent issues arising, and to encourage companies to act quickly and seek advice with no penalty in the event that something does go wrong. In the Citizens’ Juries, jurors suggested that having some kind of ‘leader board’ or ‘gold star’ ranking system to indicate the most compliant and responsible companies would be a helpful way of highlighting this. However, in the reconvened workshop participants felt that encouraging an open dialogue with the Regulator is a more feasible and realistic way of making this happen, than actually ‘rewarding’ companies.

“The Regulator needs more powers – if Ofsted can walk in to a school, these regulators should be able to spot check.”

(London Jury)

“I think we need to change the relationship so that companies aren’t scared to go to the Regulator for help.”

(Reconvened workshop)

6.3. Holding individuals as well as companies to account

Jurors strongly felt that individuals acting against the public interest should not be able to escape their misconduct with few personal ramifications. As a result, they felt that the Regulator should be able to ‘punish’ individual board members as well as companies, and that audit partners should not be able to hide behind their firm in terms of the consequences for the individual concerned. It was felt that this would act as a deterrent against any future wrong-doing.

Jurors felt the Regulator should be willing to ban or disqualify individuals not meeting the codes and standards. Many were surprised to discover that the Regulator currently only has the power to do this with qualified accountants and auditors and felt that this should be able to be applied universally, to also include company directors.

Jurors also felt that the Regulator should increase the level of sanctions they are able to apply. While many participants were pleased to see specific audit partners being fined and reprimanded in the case study investigation shared with the Juries, some felt they would expect the Regulator to act in this way on every occasion, not just in more extreme cases.

Participants also suggested that the ability to ‘name and shame’ individual board members and audit partners involved in any non-compliance or wrong-doing would act as a strong deterrent. The potential reputational damage that ‘naming and shaming’ an individual director or audit partner could have on a company was felt to be another tool in the Regulator’s arsenal to hold companies to account and incentivise compliance.

“If, as a director, you don’t comply with the [Corporate Governance] Code and the company fails or something serious happens, you should be disqualified from being one again.”
(Edinburgh Jury)

6.4. Defining and operating clearly in the public interest

Across all three Juries, participants implicitly called for companies to act in their interest by:

- empowering employee voices within a company (including employee representation on a board, or in board meetings)
- ensuring corporate boards are diverse and representative and holding more ‘unethical’ companies to account (for example, by refusing to do business with them)

However, the concept of “the public interest” is felt to be hard to define. The term feels vague and can mean different things to different people.

The definition of Public interest entities (PIEs) was felt to be similarly complex to and limited in its coverage of companies. For example, many participants were shocked to discover BHS was not a PIE, and felt that, as a national employer and pillar of the high street, it was in the public interest to ensure it didn’t fail. Jurors hoped a clearer definition of public interest would empower the Regulator to act in the public interest and champion citizens’ voices. They felt this would encourage companies to align their work with the public interest, following the lead of the Regulator.

“There should be public involvement in deciding what is the public interest. Then we can decide what to do.”
(Coventry Jury)

“They [the FRC] don’t need to just punish, but they do need to think about the public interest. They really have the public’s support.”
(London Jury)

Figure 14: Image of participants from the London Jury.



In the reconvened workshop, jurors discussed the principle of operating in the public interest in more detail. Participants felt that, to act in the public interest, companies should:

1. **Take into account wider audiences and types of stakeholders outside of shareholders.** Jurors felt that ensuring some form of employee representation on a board or in board meetings would help companies incorporate the perspective of staff.
2. **The views of local communities in particular should be taken into account.** This perspective was expressed particularly strongly by jurors in Coventry, in the context of the dominance of JLR as a local employer who both should – and does – take the views of its employees and local communities into account.
3. **Ensuring and improving diversity on boards.** The Regulator was felt to have a role in encouraging diversity, potentially by setting minimum quotas on different types of people who should be present. However, a number of participants felt it was important this didn't stray into becoming a 'box-ticking exercise'.
4. **Improving openness and transparency to improve accessibility for the public.** Re-addressing the balance between "sticks" (sanctions) and "carrots"

(incentives) so that the emphasis is more on the latter, was felt to work towards this, thus rewarding ‘good’ companies and fostering an environment based on open dialogue and transparency.

6.5. Keeping the principle of independence as a priority

Across all three Citizens’ Juries, participants agreed that the Regulator should ensure that independence – both of companies and individuals – is retained at all costs.

For example, while participants agreed that the balance of non-executive directors was invaluable in ensuring independence on company boards, some were sceptical as to how independent they could truly be. As a result, they wanted to see the Regulator taking steps to ensure that the appointment of non-executive directors and the running of board meetings addressed these concerns (as explored in more detail in Chapter 5).

The independence of audit firms was felt to be crucial in checking the quality and accuracy of a company’s financial information. Many jurors saw this as one of the key benefits of this mechanism – but felt that this is currently difficult to guarantee.

“The non-executive directors need to be independent – can they [the Regulator] check this and make it not so much jobs for the boys?”
(Coventry Jury)

“20 years is still a very long time for an audit firm to work with a company. In that time, their independence can be easily compromised.”
(London Jury)

6.6. Citizens’ vision for corporate reporting, corporate governance and audit

Building on the benefits and challenges identified with corporate reporting, corporate governance and audit in all three Citizens’ Juries, participants developed a vision for each of these three mechanisms that meets the four overarching criteria for effective regulation.

6.6.1. Corporate reporting

Criteria: Provide the regulator with enhanced power

To combat jurors' concerns about having to take the information presented in corporate reports 'at face value', participants wanted to see the regulator given more power to allow them to conduct a greater number of 'spot-checks' of annual reports:

- By reviewing a greater sample of reports and more of the information provided in reports for accuracy, jurors felt the Regulator would reassure members of the public they were effectively monitoring the production of corporate reports.
- It would also provide the opportunity for earlier interventions if the Regulator were to identify any issues with the annual reporting of financial or non-financial information.

Criteria: Define and clearly operate in the public interest

Jurors identified a clear need for companies' reports to be made more accessible to the public:

- To achieve this, some participants suggested implementing a rating system or ranking for annual reports to help identify which companies are producing the most straightforward, clearly written and well-structured reports.

Jurors also felt that, in their current format, it can be difficult to compare information included in annual reports between different companies and industries:

- Participants suggested that, to overcome this challenge, companies should be asked to follow a more standardised template when producing reports, including clearer guidelines over the language to use.

"It would be good to have a really clear and accessible rating for how good a report is. It might create a positive incentive, giving them a bit of a gold star for doing well."

(London Jury)

Across all three Citizens' Juries, participants suggested two ways in which corporate reports could be made easier for members of the public to navigate:

- Having a clearer report structure to help signpost key pieces of information was felt to be useful. This might include a 'layperson summary' of different

sections, with simpler language, less dense text, and explanations of complicated or technical concepts (or a glossary of terms).

- Many jurors were overwhelmed by the length of corporate reports and felt that technology could be used to better effect to help make this easier to navigate. Participants suggested having an ‘interactive’ online version of corporate reports with an in-built search function and clickable information or sections to make it easier to select information of interest. Including interactive graphs, charts and infographics was also felt to be a way of making both financial and non-financial information more engaging.

The majority of participants felt it should be made mandatory for companies to report on environmental sustainability and company values (for example, how staff are treated) and wanted to see the Regulator encourage this further:

- Jurors felt that making companies disclose the reasons why they do *not* include information that it is voluntary to report within their annual report would encourage greater accountability and transparency.

“There needs to be a template to standardise as we said. So, I don’t know, maybe they [the Regulator] could be making that?”

(Coventry Jury)

6.6.2. Corporate governance

Criteria: Provide the regulator with enhanced power

Jurors’ key stipulation was ensuring the Regulator is better able to enforce the UK Corporate Governance Code, but views were mixed on how to provide the Regulator with more ‘teeth’:

- In London and Edinburgh, jurors wanted the Code to become legislation, therefore giving the Regulator the legal powers needed to enforce it.
- In Coventry, several participants felt it would be more effective for the Regulator to act as a ‘thought leader’ and reward best practice rather than turning the Code into legislation.
 - These participants felt it was important to ensure that the Code still provides the flexibility needed for companies to remain innovative and competitive, while ensuring there is enough of an incentive to comply.

“If people do it whether it’s law or not, isn’t that a good thing?”
(Coventry Jury)

Criteria: Define and operate in the public interest

Jurors felt it was important to ensure the public are represented in decision-making at the highest level to ensure that a company is truly acting in the public interest and employees would be well placed to contribute to that.

Ensuring diversity on boards was felt to be critical in enabling companies to act in the public interest, and participants suggested three ways in which this could be achieved:

1. The Regulator should set stricter rules on the gender and BAME balance of boards.
2. The Regulator should review recruitment processes to reach beyond the ‘old boys club’ whilst ensuring that people of different skills and background are encouraged to consider being on a board.
3. Consideration should be given to having an employee representative on a board, to promote compliance and make sure that people actively involved in the day-to-day running of the company are also involved in the decision-making process that often affects them the most.

“If a company thinks these Codes are a worthy thing, they will do it. We need to get people to believe in these things, like get staff involved - get a vision.”
(London Jury)

Criteria: Hold individuals as well as companies to account

Jurors wanted to see the Regulator sanction company directors as well as companies for non-compliance with the codes and standards.

- Jurors wanted the Regulator to be able to enforce sanctions on company directors, to go beyond those who are qualified accountants and auditors (and therefore currently in the Regulator’s remit) particularly in the case of business failure resulting from non-compliance.
- In the reconvened workshop, participants did acknowledge that a balance between imposing greater sanctions and encouraging ‘good’ behaviour should

be struck, to ensure companies and individuals remain compliant but without dissuading people from entering these roles and industries.

“Is there any jail time for this all going wrong? Or bans for the directors?”
(Edinburgh Jury)

“I think it’s about increasing both [sanctions and incentives], rather than emphasising one over the other. Sanctions should be tougher on individuals, but only used as a last resort, to act as a deterrent.”
(Reconvened workshop)

Criteria: Keep the principle of independence as a priority

Jurors suggested measures to ensure non-executive directors retain their independence, to fulfil the criteria of keeping this as an important priority:

- Implementing enforced turnover rates of non-executive directors, so they retain independence and offer real challenge.
 - When discussed in more detail in the Juries, a three-year turnover was felt to strike the balance between getting to know a company and how it runs (particularly if it’s a large and intricate company) and ensuring their perspective remains ‘fresh’.
- Jurors also felt that independence could be retained by keeping a closer watch on the number of boards that non-executive directors sit on.
 - A maximum of three boards was suggested, to ensure people don’t become ‘career’ non-executive directors and have enough time to dedicate to their responsibilities.

“It seems like these people [non-executive directors] are very busy – they are on like ten boards. They aren’t just working for [a large retail company], so how good can they be at this job?”
(Coventry Jury)

Figure 15: Image of participants from the London Jury.



6.6.3. Audit

Criteria: Define and operate in the public interest

Jurors felt the Regulator and audit system could do more to incorporate and address the public interest. Jurors felt that, in this context, public interest was ultimately assessing and ensuring the long-term success of a company, with a view to how certain business practices or performance might affect employees, customers, the local community and the UK economy more broadly.

- Jurors felt that auditors could have more of a role in assessing how economically or financially sustainable a company might be, even whilst focusing on the appropriateness or legality of accountancy practices.
 - For example, participants thought specifically about Carillion and the use of goodwill in their accounts, as well as potentially flagging more ethical issues (e.g. BHS and pensions).
- Jurors also wanted to see the Regulator taking more of a role in assessing and updating accountancy and audit practices and standards, in the light of and learning from significant company failures, to ensure companies and audit firms operate in the public interest.

“Nothing’s ever going to be perfect [in terms of preventing companies failing] but maybe the Regulator needs to keep challenging the standards and what audit is doing and looking at.”
(Coventry Jury)

“It seems like it’s not working at the moment, otherwise you wouldn’t have all these high-profile collapses. Maybe the whole system needs to be looked at.”
(Coventry Jury)

Criteria: Hold individuals as well as companies to account

For audit, jurors tended to think that there should be more focus on holding individuals to account for their actions, for example, fining individual audit partners and ensuring they paid the price rather than allowing them to ‘hide’ behind their firms.

- Participants felt that where an individual had been involved in deliberate wrong-doing, they should face a personal fine in proportion to the action and their worth, in addition to a potential ban or even criminal charges.
- By focusing on individual accountability, participants felt that the Regulator would create an effective disincentive to poor quality audit, conflicts of interest and fraud, without crippling the audit firm itself and potentially negatively affecting the economy.

“If individuals were responsible, you wouldn’t have these problems.”
(Edinburgh Jury)

Criteria: Provide the Regulator with enhanced power

In the reconvened workshop, participants called for the regulator to be given more power to apply sanctions in the event of wrong-doing, but for these sanctions to be applied as a last resort.

Jurors also deliberated how the Regulator could ensure that sanctions are applied fairly to avoid scapegoating within firms:

- Jurors tended to cite the need for a clearly defined list of roles and responsibilities, to make it clear who is accountable for what.
- The Jury in Coventry in particular also felt that strong regulatory power and ‘teeth’ should be balanced against incentives to encourage compliance.

- Jurors felt that one of the ways in which the Regulator could achieve this balance was by having more open lines of communication and transparency with companies and audit firms. Many felt it was important for the Regulator to encourage firms or companies to approach them directly to discuss genuine mistakes without fear of repercussion.

Jurors suggested that the Regulator accompany or shadow auditors as they carry out audits, in order to ensure standards are being met and to provide expert support and advice.

- Jurors felt that if these more open approaches were impractical, for example due to data security, the Regulator should at least be conducting more frequent spot checks to ensure quality.
- Whilst jurors also expressed support for the Regulator having the power to conduct spot checks on auditors in the reconvened workshop, participants did acknowledge that this would require significant resource on the part of the Regulator

“Random checks would make it serious. Yes, they [the Regulator] should spot check.”

(London Jury)

Jurors also felt that increased transparency and communication could be achieved through the use of digital technology, which the Regulator could have a role in driving forwards:

- One suggestion was for a system for companies to upload figures to auditors or the Regulator on a more regular basis, to prevent creative accounting to flatter performance at the point in the year audit is conducted.

Criteria: Keep the principle of independence as a priority

Jurors saw independence as a fundamental requirement of a functioning and effective audit system and thought the Regulator should do more to promote and ensure this principle.

- Jurors described the importance of expanding audit firms beyond the ‘Big Four’ for FTSE100 and 350 companies as a means to drive greater competition and independence between auditors and the companies they audit.

- However, a few jurors, mostly those in Coventry, did suggest the benefit of their experience and expertise of the 'Big Four' might be an acceptable trade-off for a smaller market, if other measures to drive greater independence are also encouraged.

One of the main areas where jurors felt the Regulator should have more control is over the other consultancy services audit firms offer and their hospitality to their audit and consultancy clients.

- In both areas, jurors felt the Regulator should set stricter limits and restrictions to prevent familiar and reciprocal relationships developing between auditors and the companies they audit.

Jurors also wanted the Regulator to revisit and reassess the maximum length of an audit contract with individual companies.

- There was general agreement that the current 20-year maximum term limit felt excessive and was likely to lead to loss of independence or simple complacency.
 - As an alternative, jurors suggested a 5 to 10-year term limit, with individual auditors and audit partners required to rotate every 2 - 3 years within this.
- Whilst jurors agreed that serving for multiple years brought significant benefits in terms of building understanding of a company, they felt that this benefit was outweighed by the potential weaknesses of the current timeframe.

“No more wining and dining. There should be restrictions to prevent them all becoming too chummy.”
(Coventry Jury)

7. Conclusion

The FRC commissioned BritainThinks to conduct research with the public to understand citizens' views on the development and strategy of the FRC, how the FRC can best operate in the public interest and identify any gaps in expectations between what the public perceives to be important and what the Regulator delivers, and can deliver.

Through a series of presentations, small group exercises, plenary debates, and briefings from FRC experts, participants had the opportunity to debate these mechanisms that exist to 'check' a company activity. This enables them to move beyond a 'me and mine' mindset to a citizen's mindset, considering the broader societal implications of more complex 'trade-offs'. A selection of 24 jurors from London, Edinburgh and Coventry were then invited to a reconvened workshop to explore these 'trade-offs' in more detail and co-create recommendations for the future with representatives from the FRC.

Across the research, the following themes emerged:

- Citizens' spontaneous views of companies were quite negative, with corporate greed and misdemeanors front of mind. However, when asked to consider the impact companies can have on the UK, jurors had more positive perceptions and felt large companies play a significant role in encouraging responsible behaviour. To this end, the concept of "purposeful companies", discussed in detail in the reconvened workshop, was received positively.
- Citizens wanted to see the Regulator given greater powers to hold companies to account but were somewhat divided over how best to achieve this. A number of jurors called for the introduction of legislative changes to enable this to happen, but in the reconvened workshop many did acknowledge that any increase in regulation should not come at the expense of companies' ability to operate and flourish.
- Across the Juries, citizens implicitly called for companies to act in their interest. When discussing this further in the reconvened workshop, participants felt that, to act in the public interest, companies should: take into account wider audiences and types of stakeholders outside of shareholders, including the views of local communities; ensuring and improving diversity on boards and encouraging openness and transparency to improve accessibility for the public.

- Jurors felt strongly that individuals acting against the public interest should not be able to escape their misconduct with few personal ramifications. As a result, they felt that the Regulator should be able to ‘sanction’ individual board members as well as accountants, audit partners and their firms.
- Finally, citizens agreed that the Regulator should ensure that independence is retained at all costs across the mechanisms that exist to ‘check’ a company activity. Participants felt it was particularly important to ensure the independence of non-executive directors and audit partners.

Taking a deliberative approach gave participants the time, space and information to move beyond their spontaneous, often more negative perceptions of companies, to a more balanced view of what companies can deliver the UK, and the ways in which the Regulator can effectively keep them in check.

Citizens’ saw a real need for a balance between imposing strong ‘punishments’ on companies and individuals for wrong-doing, and incentivising ‘good’ behaviour and compliance, to ensure that companies are able to grow and flourish – whilst clearly operating in the public interest.

8. Appendix

8.1. Detailed recruitment specification

To ensure a diverse and broadly representative sample, jurors were selected to take part in this research based on the following criteria:

- **A target of 20 participants recruited for each Citizens' Jury**
- **All participants to identify as being relatively confident and outgoing**
- **Place of residence:**
 - Respondents who live and work in and around [Coventry/ Edinburgh/ London]
- **Life stage** (with a good spread of ages within each group):
 - Minimum 3 pre-family respondents: including young adults living with parents and young adults living with 'flat mates' or partners. Skewed towards the 18-30 age group.
 - Minimum 3 respondents with young families aged 11 or under: including single parent and two parent households. Skewed towards the 30-45 age group.
 - Minimum 3 respondents with older families aged 12-20: including single and two parent households. Skewed towards 45-55 age group.
 - Minimum 3 empty nesters: including a mix of those who are single and those who live with a partner. Skewed towards 55+ age group.
 - Minimum 3 working age respondents who do not have children: including a mix of those who are single and those who live with a partner. Skewed towards the 30-59 age group.
- **Gender:**
 - An equal mix of male and female respondents
- **Social Grade:**
 - Recruit minimum [X]² A/B/C1
 - Recruit minimum [X] C2/D/E
- **Ethnicity:**
 - Recruit minimum [X] and max [X] Black, Asian and minority ethnic (BAME) participants

² Numbers denoted as [X] were changed across each location. Researchers used ONS statistics to reflect the social grade and ethnic demographics in each area, London, Coventry and Edinburgh.

- **Spread of profession/sector**
- Screen out anyone working in:
 - Media
 - Market Research
 - Marketing
 - Banking
 - Accountancy/Financial Advisory
 - Journalism

Attitudinal statements

For this research, participants were recruited who identify as being relatively confident and outgoing to ensure they would feel comfortable giving their opinion in a larger group setting.

- Potential jurors were asked whether they agreed or disagreed with the statements below. To participate in the research, they were required to select at least two green statements and no more than one pink statement.

	Agree Strongly	Agree	Neither	Disagree	Disagree Strongly
I am the first person that my family and friends turn to for advice when they have a problem					
I always make sure that I catch up with the news and current affairs every day					
People who know me would say that I'm the life and soul of the party					
In general, I prefer to keep myself to myself					
I'm good at tackling problems					
I love meeting new people					
I tend to keep quiet when there's a debate or argument happening					

8.2. Agenda for the Citizens' Juries and Reconvened Workshop

8.2.1 Overview of the Citizens' Jury agenda

The following table provides further detail about the topics covered in each of the Citizens' Juries in London, Coventry and Edinburgh.

Day	Section	Key discussion points and activities
One	Introduction (15 mins)	<ul style="list-style-type: none"> BritainThinks and FRC introduce the research, including providing an overview of what the FRC is and why it is important that the FRC engages citizens.
	Background views on companies (45 mins)	<ul style="list-style-type: none"> Participants brainstorm the words and phrases they associate with 'companies' before creating collages symbolising how they feel about companies and what they deliver for the UK.
	What is a company and what do they deliver? (45 mins)	<ul style="list-style-type: none"> FRC expert to present information covering what a company is and introducing four key relationships the general public has with companies: consumers, employees, investors & savers, and citizens. Participants to discuss what the public, as [customers/employees/investors & savers/citizens], need to know about a company.
	What information do companies currently report? (70 mins)	<ul style="list-style-type: none"> FRC expert to present information about corporate reporting including the current role of the FRC and the benefits and limitations of corporate reporting. Participants provided with the opportunity to ask questions about corporate reporting. Participants discuss their initial perceptions of corporate reporting and the importance of large companies being required to publish reports. Participants skim through the annual report for one of the case study organisations (a large pharmaceutical, a large retail company, a large entertainment company), and discuss their views and opinions of the information included and its format. Participants summarise the key benefits and challenges of corporate reporting and brainstorm any possible solutions.

Day	Section	Key discussion points and activities
One	<p style="text-align: center;">How do companies operate? (105 mins)</p>	<ul style="list-style-type: none"> • FRC expert to present information about the structure of company boards, role of non-executive directors and shareholders in holding directors to account, and the UK Corporate Governance Code. Participants provided with the opportunity to ask questions about corporate governance as a mechanism for checking company activity. • Participants discuss their initial views on the role of boards, non-executive directors, shareholders and the effectiveness of the Corporate Governance Code. • Participants to review and discuss views on relevant information presented about one of the case study organisations, including the scale of its operations, and details of its directors and boards. • Participants summarise the key benefits and challenges of corporate governance and brainstorm any possible solutions.
Two	<p style="text-align: center;">Welcome and re-cap (30 mins)</p>	<ul style="list-style-type: none"> • BritainThinks give a short presentation re-capping key conversations and conclusions from the previous day.
	<p style="text-align: center;">What is an audit? (140 mins)</p>	<ul style="list-style-type: none"> • FRC expert to present information about what an audit is, how audits are conducted for different types and sizes of companies, and the 'Big Four' audit firms. Participants provided with the opportunity to ask questions about audit. • FRC expert to then present further information covering the audit expectations gap, the FRC's current role in checking audit quality and the key benefits and challenges of audit. Participants to ask any final clarification questions. • Participants to discuss their initial views on what audit should be trying to achieve and the audit expectations gap. • Participants to read through the Independent Auditors' Report for one of the case study companies and reflect on this. • Participants to read examples of cases of company failures, provided by the FRC Enforcement Team,

Day	Section	Key discussion points and activities
		<p>where audits have been limited in identifying issues with reporting or corporate governance and asked what this makes them think about the role of audit.</p> <ul style="list-style-type: none"> • Participants summarise the key benefits and challenges of audit and brainstorm any possible solutions.
Two	<p>Developing key criteria for the Regulator (45 mins)</p>	<ul style="list-style-type: none"> • Participants discuss the extent to which they perceive corporate reporting, corporate governance and audit to be effective mechanisms to ‘check’ companies’ activities, and the reasons behind this. • Participants brainstorm their top three overarching criteria for the Regulator to ensure these mechanisms are as effective as possible. • Voting session to determine the most important criteria for the Regulator to ensure effective regulation.
	<p>The role of the Regulator (55 mins)</p>	<ul style="list-style-type: none"> • Participants complete a ‘stretch and build’ session to develop a vision for the role of the Regulator overseeing corporate reporting, governance and audit, including: <ul style="list-style-type: none"> ○ How the Regulator can operate in a way that meets jurors’ criteria for effective regulation. ○ Specific recommendations for how the Regulator can achieve this.
	<p>Reflections and close (35 mins)</p>	<ul style="list-style-type: none"> • Participants complete an individual worksheet outlining their one piece of advice for the FRC. • FRC representative to thank participants for their time, reflect on their advice and recommendations, and provide an overview of next steps for the Regulator.

8.2.2 Overview of reconvened workshop agenda

The following table summarises the points covered in the reconvened workshop, which took place in London.

Section	Key discussion points and activities
<p>Introduction (30 mins)</p>	<ul style="list-style-type: none"> • BritainThinks and FRC to introduce the session. • BritainThinks to present a recap of the discussions and recommendations from the Citizens' Juries.
<p>Purposeful companies (60 mins)</p>	<ul style="list-style-type: none"> • FRC expert to present information covering the definition of purposeful companies, key elements of purposeful companies and examples of what a purposeful company could look like. • Participants discuss their responses to the concept of purposeful companies, including the extent to which they feel it is a realistic ambition. • Participants to review and discuss information about a case study purposeful company (large utility company). • Participants to review information about the case study organisations from the Citizens' Juries to discuss the extent to which they feel they are 'purposeful'.
<p>Table discussion: getting into the detail (90 mins)</p>	<p>Table 1 discussion: Defining public interest</p> <ul style="list-style-type: none"> • Participants discuss what acting in the public interest means to them; table to come to a common definition. • Participants to debate how a company can best act in the public interest (covering and building on solutions identified in the Citizens' Juries). • Participants summarise what they feel companies should do in order to act in the public interest and how the Regulator can help them to achieve this. <p>Table 2 discussion: The balance between sanctions and encouraging good corporate behaviour, reporting and audit</p> <ul style="list-style-type: none"> • Recap possible solutions jurors identified to the challenges of corporate reporting, governance and audit plus priorities for the Regulator. • Participants discuss the sufficiency of current sanctions for corporate reporting, corporate governance and audit

	<p>and the potential impacts of increasing sanctions on companies and individuals.</p> <ul style="list-style-type: none"> • Participants discuss how good corporate behaviour, reporting and high-quality audit can be encouraged and the role of the Regulator in this. • Participants to summarise their views on the balance between “punishment” and encouraging good corporate behaviour, reporting and high-quality audit. <p>Table 3 discussion: Refining solutions to the challenges of audit</p> <ul style="list-style-type: none"> • Participants discuss what audit should be trying to achieve and views on the expectations gap. • Recap key solutions to challenges of audit identified in Citizens’ Juries and build on these. • Participants identify the two most effective solutions for audit. <p>Table 4 discussion: The roles and responsibilities of various stakeholders</p> <ul style="list-style-type: none"> • Participants list key stakeholders responsible for the success of companies and discuss the roles and responsibilities of each. • Participants discuss spontaneous perceptions and views on the concept of stewardship, before reviewing a definition of this.
Final reflections	<ul style="list-style-type: none"> • FRC representative close the session by thanking participants and explaining how findings from the research will be taken forward.

8.3. Questions asked by jurors

Below is a list of questions asked by jurors across the three Citizens’ Juries:

Questions on corporate reporting:

- Are they required to do this by law?
- Who signs off the report?

- Who reads the report?
- Why is it so long?
- Why isn't there a summary version written in plain English?
- Why isn't reporting on sustainability and equality mandatory?
- Can you access the report online?
- Can they do more than once a year?
- Does it become outdated quickly?
- How much does it cost to make the report?

Questions on corporate governance:

- Why is the UK Corporate Governance Code not law?
- Is there a punishment if you don't follow the Code?
- What would happen if the FRC could enforce the Code?
- How do we learn from mistakes and failures?
- Can you be a non-executive director on multiple boards?
- How long can you be a non-executive director on a board for?
- What is the ratio of directors to non-executive directors?
- How often do the boards meet?
- Can the FRC attend board meetings?
- How can non-executive directors stay balanced in their views?
- Are non-executive directors always independent?
- How much do non-executive directors get paid?
- What is the public interest?

Questions on audit:

- Why do companies like Carillion fail?
- Why didn't the audit catch failures in BHS and Carillion?
- How do we ensure competition when we only have the Big Four audit firms?
- Could a small audit company do just as good of a job?

- Why are companies allowed to choose their own auditor?
- Isn't 20 years too long as a maximum term for auditors?
- Does the 20-year time frame affect their independence?
- How much do the auditors get paid?
- Can auditors offer other services?
- Who decides what information gets looked at?
- How do auditors distinguish genuine mistakes from misconduct?
- How can the Regulator punish misconduct?
- Can individuals get punished for misconduct?
- What percentage of audits fall into each grade (i.e. 1, 2a, 2b, 3)?
- How many chances do companies get to rectify any problems identified?
- How do companies choose the auditor?
- Who audits the auditors?
- How long does an audit last?

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