

The FRC's enhanced approach to Professional Bodies Supervision: Transcript

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Hello and welcome to another FRC in Conversation podcast series. I'm Kate O'Neill. I'm the director of stakeholder engagement and corporate affairs here at the FRC. And today I am joined by Dawn Dixon, our director of Professional Bodies Supervision, and Dhruve Shah, deputy director of Professional Body Supervision. Welcome, Dawn, Dhruve. Thank you, Kate. Thanks, Kate. Lovely to be here.

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So I would say in all of the FRC conversations we've had, the professional bodies area is not one that we've really explored a lot. So this is a great opportunity, I think, to bring to life a lot of the fantastic work that you guys and the team do in relation to the oversight of professional bodies.

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Before I ask the question about why did you move from being professional oversight team to professional body supervision, I think it would be really important for some of our listeners to understand why does a regulator have oversight of some membership bodies. And Dawn, I'm going to come to you first on this because there's a number of professional membership bodies that look after auditors and accountants. So what is the FRC's role here? Thank you, Kate. That's a very good question. So

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some of the bodies are responsible for regulation and regulation of the audit market. It's really important to distinguish for the purposes of this question, between what the FRC does directly, which is regulate the PIE audit market, and the rest of it, which is the responsibility of the FRC but is actually carried out by the professional bodies or certain professional bodies who have their respective tasks delegated to them by the FRC

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- and just to interrupt you. That PIE to our listeners is public interest entity. What does that mean? Does that mean public bodies? Or does that mean entities that really do have an impact on the wider societal economic interests?

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So there's a formal definition of public interest entities, but broadly for our purposes they are listed companies and entities that have a strong public interest that are significant to the public. But listed companies are the primary public interest entities. Of course when you take the whole of the audit market in the non-PIE audit market, things could still go wrong. That would cause a problem for auditors and companies generally.

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And I guess that could be anything from size to what's called systemic as you operate in an environment that's important to the economy and society at large. Yes, absolutely. So about six months ago, don't hold me to the date, the FRC decided to restructure the professional oversight team, as it was known, POT, into the professional body supervision team. So Dawn, first to you and then I'll come to you. Dhruve, what was the thinking behind all the reason for that change?

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Up to that point, we had spent most of our time focusing solely on the processes around the specific regulatory functions that are delegated to the professional bodies, understandably because that's what the FOC is required by law to supervise or oversee as we called it in those days. But what we realised is that we could go on doing that indefinitely and doing lots of work around those processes, those specific processes, But would never get a really strong in depth understanding of the quality of management, the quality of

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governance, the quality of risk assessment or the overall procedures that really set the tone and ensure that everything within the professional body is properly controlled and managed

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and with a proper governance structure at the top of it. So that's why adopting the supervisory model, it was a real benefit because we now in agreement with the bodies can have a look at all those areas of management, risk assessment, governance, and form of view about those and more importantly make recommendations if we think they're necessary. And that will have an impact on all the regulatory processes that are within our scope.

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I mean, Dhruve, you're new-ish to the FRC, but that holistic supervisory approach that Dawn's just really outlined very helpfully. Do you think that's the future of supervision, not just for the FRC, but for anybody supervising an entity that really has this kind of core purpose of a regulator at the coalface, but also fitting into a wider regulatory structure? Yeah. Thank you so much, Kate. And yeah, definitely, I'm an auditor at heart and I focus on qualified logic here. So the logic for me goes, if an individual process fits into a wider organisation, so the performance of the wider organisation can fundamentally impact the delivery and quality of an individual process.

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So when I think about the supervisory approach, I think about the benefits of it and you're alive to the ecosystem in which the body operates, you can think about the wider risk associated with each process and really target your assurance based on those holistic assessment of the body's performance, that holistic work. And I'll come to you Dhruve then Dawn. I mean it's an overused word in many ways, but I think Dhruve, since joining the FLC, you've seen that really applied across the FRC, across our four faces

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approach to regulation. It's never just one thing. It's never enforcement or improvement. It's not.

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Yeah, absolutely. I think in terms of the pressure of body specifically, they are fussy, able to gain assurance over the ability of the professional body to perform all of its tasks. So rather than looking at a specific task and rather than relying on sampling to gain assurance over a specific process, you're really looking to assure yourselves that that body is capable of delivering its task to a high standard. And that's what that holistic approach does give you, Dawn. That's a really evolutionary approach to supervision, oversight, wallet, what you will, I would think from not just the FRC's perspective but maybe this whole idea of regulation being about an improvement plus supervisory approach.

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I think you're right, Kate. I mean I haven't surveyed, you know, the whole remit of other regulators particularly. But I do have people talk to me about setting standards for our regulation and just sticking to those standards in what we do to supervise them and how we carry it out. And while I understand that it would be a good thing if we do develop something more robust to put on our website that explains what we do and why we're doing it. I think we will establish through the supervisory model is a much more agile way of moving

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from one area to another if we need to focus on them. So we'll get a much broader view of just how good management and governance are and where perhaps the weak spots, if I dare to call them, or you know, where perhaps things could be improved rather than religiously sticking to one set of standards where you do exactly the same thing every year. And I think that's an interesting point, Dawn, because it's very easy to boil regulation or oversight down to box ticking. I did X all good. The things you were talking about before,

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things like culture, governance, the way in which people do things to improve processes, that's got to be what the target and the approach has to be to supervision which is beyond the box ticking.

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Absolutely, because you have to do a certain amount of checking of specific systems and processes, obviously to justify and support what you found in doing the holistic approach. But nevertheless, if you have a look at the wider governance and management processes and so on, you're going to get a much better idea as to where things have changed in the organisation. Where they've put greater emphasis, maybe where they've been short of resource and they haven't done as much as they have in the past. And where there could be a few issues coming through which may never have been there in the past and you wouldn't know where to focus your activities unless you do that. If you just stick to a programme box ticking as you call it, then you know you're never going to change your focus or

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decide actually this year we're not going to do that. We're actually going to go and do a whole load of work over there on something else because we know that's where the risk is. So you know, you need some flexibility, I think, in regulation.

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Dhruve, you recently joined the FRC as the professional body supervisory deputy director. But tell us more about your role and what brought you to the FRC. So yeah, I am the deputy director of the team. It's a newly created role following the restructure of the PBS team, so formerly now PBS, and it's only been about 3 1/2 months since I joined. So Dawn and I are still working through how to best utilise my skills and experience, But breaking down our roles and starting with DAWNS, I think Dawn represents the strategic vision of the PBS team. So it's her role to engage with the most senior stakeholders, authorise our annual oversight activities, make sure we're appropriately evaluating the performance of the professional bodies and evaluating risk within those bodies and building on that as well as her job to make sure that the recommendations being made to those bodies are received positively to the bodies continue to improve.

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My role I see is very much of an enabler. So I want to be here to support the 40 plus individuals in the PBS team in doing what they do to the best of their potential. So it might range from offering critique on an approach to ensure we're being pragmatic and proportionate. It might be about finding synergies in how we deliver our assurance. It might be just being a sounding board to colleagues to test ideas and approaches. And hopefully I can offer guidance from my years of serving as a key audit partner with the National Audit Office, which was my previous role.

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And that's super interesting to bring that different lens and perspective. And I think you're right, it's both you and Dawn would agree. We've got to kind of keep up with the trends, the emerging issues within not just the profession, but the way in which it's engaging with its clients and its stakeholders. I mean, I don't think that's ever going to be finite or you're never going to find the answer because something else will crop up.

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That's right, Kate, to refer to that. This is a market that's always changing. And it's changing because of course of all the companies and the different sectors and so on, that it's responsible for auditing. And we're talking about the entire corporate market in the UK here and further afield. And obviously there are huge changes both in terms of economics, politics, the way things are done, it all those sorts of things which have huge changes and create new risks for the Auditors and therefore for us as the regulators of the auditors.

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Truth coming from an external kind of partner, external stakeholder. Do you think there are any myths we have to bust about how as a regulator, we engage with the professional bodies?

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Yeah, I think the biggest one for me is since I've joined, I've seen a genuine commitment from everyone at the FRC to be an improvement regulator. So as an external auditor, you're always a bit scared of the AQR function. But having now worked a little bit closer with the audit market supervision and audit firm supervision teams, I see it's amazing the work they do with the Tier 1 audit firms around that improvement piece. So assessing culture or governance, risk management, financial resilience, operational performance, those teams are taking that holistic view of the audit firm to hopefully offer recommendations to improve the overall performance of that audit firm. And the AQR results are just a check on the overall health of that audit firm. So yeah, it's that commitment to improving audit which I find really inspiring and the best part of the job for me

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and as far as the kind of consistency between, I'm sorry, I'm on a mission to bust all and every acronym I can AQR is the audit quality review team at the FRC who does an important piece of work with the bigger audit firms out there. I mean is there a Nirvana between the consistency between the FRC supervision of the audit firms and the way that we are supervising the professional bodies, Dawn, is that what you're talking about regarding our holistic approach, you know we're we're kind of taking the learnings from both and sharing them to get a better outcome for

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wildly different bodies doing different things in the ecosystem.

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But actually going like we hope I guess for more consistent high quality audit indeed Kate. And we are looking for that consistency because if you think about it, the professional bodies are doing within the non-PIE market what the FOC is doing in the PIE market. And the audit firms that they're responsible for are carrying out similar procedures and processes and so on and have to be well equipped and trained and technically skilled to do that work, just as the auditors who are doing PIE audits have to be. Except that

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the companies they're looking at may not be quite as risky or as complex and so on. But the basic principles are going to be the same and there's no reason why they shouldn't be held to the same standard as the PIE audit firms for proportionately to what they are responsible for. So it makes sense that the professional bodies who are doing the role for us in the non PIE audit market

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held to the same account and are supervised in a similar way. Dhruve, do you agree, I guess you can't drive a wedge between π and non π . This is all about high quality audit whatever the market you're in, whatever the sector you're in. Yeah, I absolutely agree with that. I think pilots by their very nature might be inherently more complex. So they may have a complex investment vehicle associated on their balance sheet. But that doesn't mean that we shouldn't expect auditors to conduct each audit π or non π to the same standard with the same rigour with the same quality assurance. I think the area of proportionality is probably around how much time you need to deliver a non complex audit, which is probably going to be less by way of people hours or time from A to B.

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Then it would be for a complicated order.

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Dawn, so Dawn, six months on, have you heard some feedback from the professional bodies about this kind of restructuring from professional oversight team to professional bodies supervision model? I mean that people noticing it, are they commenting, are they giving you some feedback? Yes, we have had feedback. Generally the bodies are supportive of this approach. They can see the sense of it, the benefits of it and that it enables us to form our views on them from a much broader perspective.

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Having really understood how they operate. I think they are a bit nervous about one or two things. So particularly anything that we might do where it looks as if perhaps we're extending our remit beyond the regulatory functions to the membership function that they perform, some of which is relevant, but obviously not all of it. And more importantly to their wider commercial activities. We certainly obviously don't want to end up doing a lot of work that relates to their commercial activities. That's not within our remit. That's not what we're being asked to do. So

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my response to them is you know we need obviously to work with them to make sure that we structure our work so that we are focusing on the right things. But also there is a big point that we do have to cover which is conflicts of interests. You know, we obviously want to be sure that in the larger bodies that have big commercial interests that are very profitable are not being supported at the expense of the regulatory function.

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But beyond that, we are obviously going to be looking at the detailed processes they have for things that are not part of the regulatory remit. Other than that, we haven't really had any adverse feedback at this stage. I think you've been too modest here, Dawn. I think actually we've heard actually positive feedback rather than no adverse because they see the benefits of ballistic supervisory model. And I think everything you've said in this exchange today says that's only for the good because I think Dhruve, interested in your view here.

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Anything that goes past the kind of crime of box ticking, call it what you will, has to be appreciated because you're taking the opportunity to really understand the drivers and challenges that the professional bodies are going through that. I know you have talked to them a lot about some of the issues around attracting talent to the profession, capability, capacity. And that's not going to end anytime soon because it's a really difficult challenge to really overcome.

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Yeah, definitely. I think what I've seen from the embedding of the supervision model is we've got senior people now at the PBS team who are the lead supervisor for each body. So they're this person that takes all the information received from the bodies to the FRC and also filtered with information FRC want to send back to the bodies. They really understand their body. They can tailor their request. They can augment the procedures we have in place to gain that assurance. But they can also make really meaningful recommendations to the body, which would lead to genuine long term improvements, not just for the body, not just for the goals of the FRC, but the wider audit sector as a whole. And that can only be a good thing because we're all committed to the public interest.

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No, that's a super important point. Audit is in the public interest. Well, I could have talked for much longer and maybe we'll come back in the new year and you can unveil your plans for what's next for the professional bodies. Thank you for bringing to life some of the way in which regulation can be used to make it a more holistic experience for the regulated, but also help them in their end goals as well. So thank you both. And I'm going to call you back on the New Year to talk about your plans. So thank you for your time today. Thank you to our listeners. This is another In Conversation FRC podcast.

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Thanks for your time.