

**Institute and Faculty of Actuaries**

**Regulatory Board**

**Noting report**

<b>Subject</b>	FRC Oversight
<b>Regulatory Board meeting</b>	21 February 2023
<b>Purpose</b>	Noting

The following documents are appended:

- Actuarial section from the FRC's Public Oversight report
- IFoA Private Report 2021-22
- Email exchange between Ben Kemp and Dawn Dickson

## OVERSIGHT REPORT 2021/22 **Extract for IFoA**

### The Financial Reporting Council's report on its oversight responsibilities during 2021/22

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## 1. Executive Summary

This is the annual report from the Financial Reporting Council (FRC) to the Secretary of State for Business, Energy, and Industrial Strategy (BEIS) on how the FRC has discharged its statutory and non-statutory oversight (of the professional bodies) responsibilities in 2021/22. The report describes the key matters that arose from the FRC's oversight activities. It also updates on the FRC's work to assess third country audit arrangements and on progressing Equivalence and Adequacy<sup>1</sup> assessments and Mutual Recognition Agreements (MRAs).

### Oversight of the Professional Bodies

[..

#### *Oversight of the Institute and Faculty of Actuaries (IFoA)*

Based on the oversight activities we undertook in 2021 we found no evidence to indicate that IFoA's current regulatory framework was not effectively implemented.

Over 2021 IFoA reviewed aspects of its regulatory framework to ensure it is fit for purpose and operating in the public interest. IFoA concluded an in-depth review of its Disciplinary Scheme which will include addressing open prior year recommendations made by FRC. In addition, IFoA proposes changing the definition of misconduct under its disciplinary scheme.

In May 2022, the Government published its Response<sup>2</sup> to the white paper on restoring trust in audit and corporate governance. In light of this, the IFoA have acknowledged they will need to consider whether any further changes are required to the IFoA's disciplinary framework once legislation has been drafted. This will ensure compatibility with ARGA's regime once ARGA is effected. We look forward to engaging with the IFoA on this matter to enable a smooth transition to ARGA's regime.

IFoA published its updated Practising Certificate Scheme in January 2022. FRC raised a concern that changes to the scheme could weaken the overall rigour of the scheme. IFoA agreed to incorporate changes suggested by the FRC to address this concern.

We were content that proposals by the IFoA to amend its byelaws in respect of honorary membership and retirement from Council would not harm the public interest.

Through the Government Response to the consultation on reform, the Government has confirmed that ARGA's oversight of the IFoA will be brought on to a statutory basis. The FRC will be engaging in activities to facilitate the transition from the current voluntary oversight arrangement to the new statutory regime.

#### *Oversight of accountancy*

<sup>1</sup> Equivalence is granted when the audit oversight, monitoring and disciplinary and enforcement regime of a third country is deemed to be comparable to those of the UK. Adequacy is granted when the data protection and personal data policies and procedures of a competent authority are considered to be comparable to those of the UK.

<sup>2</sup> [Government response Restoring Trust in Audit and Corporate Governance.](#)

Our current work remains focused only on complaints handling related to Chartered Accountancy bodies. None of the complaints reviewed raised issues of substantive mishandling and no recommendations for improvements were made to the bodies in relation to these complaints. The remaining matters either fell outside the FRC's complaints handling full review remit, or the complainant had not first exhausted the professional accountancy body's or actuarial body's complaints procedure.

In May 2022 the Government confirmed its intention to extend the remit of the proposed statutory accountancy oversight regime to include all relevant professional bodies, whose members are required to hold professional-level accountancy qualifications equivalent to a level 6 qualification or above. This scope is broader than chartered accountancy bodies but excludes bodies whose members hold specialist qualifications, such as tax. The extended regime would involve ARGA monitoring and reviewing the regulation of the bodies' members; and a power for the regulator to require the bodies to take specific actions where significant public interest concerns are identified.

### ***Oversight of governance arrangements***

In 2021/22 we observed Boards and Committees focusing on those most relevant to each RSBs' and RQB's responsibilities for regulation of auditors and followed up on previous recommendations. We found no significant shortcomings in the openness of bodies' governance arrangements and governance activity. All had taken steps towards addressing prior year recommendations and we will follow up on the remaining recommendations in 2022.

In 2021 IFoA's newly formed Regulatory Board took responsibility for the oversight and interrogation of all IFoA's regulatory activities, including the public interest aspects of all IFoA's qualifications and admissions framework. We sought evidence that the new Regulatory Board had fulfilled its remit over 2021. We were satisfied that oversight of the disciplinary scheme continued to be effective.

### ***Review of activities to combat climate change***

All the professional bodies we oversee have recognised the importance of climate change within their strategy. Most have made available significant educational resources to support their members, however all the bodies have some way to go to embedding climate change and sustainability related considerations into their regulatory frameworks. The FRC expects the professional bodies to have identified the risks associated with climate change for financial reporting and auditing and to be taking mitigating actions through their education and qualifications, and through their regulatory responsibilities.

### ***Regulation of Third Country Auditors (TCAs)***

[...]

## 4. Oversight of the IFoA

The Professional Oversight Team carries out the FRC's non-statutory oversight of actuarial regulation through a memorandum of understanding (MOU) with the IFoA. We discharge our oversight responsibilities, in consultation with the IFoA, based on the risk to the public interest.

During 2021 IFoA proactively reviewed aspects of its regulatory framework to ensure it is fit for purpose and operating in the public interest. Our oversight found no evidence that IFoA's current regulatory framework is not effectively implemented. We have however, made four new recommendations, one of which is covered in the Governance section of this report.

IFoA has concluded its review of its Disciplinary Scheme including addressing FRC's previous recommendations. The project encountered some resourcing challenges in 2021 but IFoA advised that the project was back on track by 2022. IFoA engaged with FRC on this review since 2019 and we reviewed IFoA's proposed changes in early 2022.

The FRC notes that IFoA proposes changing the definition for misconduct under its Disciplinary Scheme from conduct constituting failure to comply with the standards reasonably to be expected, to conduct failing significantly short of those standards.

Since the IFoA completed its review the Government Response was published May 2022.

The Government Response to the consultation on audit reform confirms ARGA will have a statutory power to take action against the individuals responsible for breaches of standards and, in appropriate cases, take enforcement action. The FRC intends for the test for action under ARGA's new statutory enforcement regime to be whether there has been a breach of technical standards.

With this in mind, the IFoA have acknowledged they will need to consider whether any further changes are required to the IFoA's disciplinary framework once legislation has been drafted. This will ensure compatibility with ARGA's regime once ARGA is effected. We look forward to engaging with the IFoA on this matter to enable a smooth transition to ARGA's regime.

In January 2022 IFoA published its updated Practising Certificate Scheme. FRC raised a concern that changes to the scheme could weaken the overall rigour of the scheme, which the IFoA took into account. FRC considers that the Scheme should be clear that practising certificates could be refused if the evidence did not confirm the suitability of the candidate. IFoA agreed with this change.

We also raised a concern that IFoA proposed to ask for feedback on the Scheme document without also issuing the supporting handbook which, we understand, will provide guidance to members applying for practising certificates and will also explain the principles on which applications will be assessed. We concluded that that the Handbook is essential to achieving a full understanding of how the scheme will operate. The FRC was given the opportunity to review both the Scheme and the Handbook before the Scheme document was finalised. We consider that IFoA missed an opportunity to seek feedback on potential flaws in the drafting of the Scheme by not providing members and other interested parties with an opportunity to review the Scheme and Handbook together before the Scheme was finalised. IFoA published the revised Scheme in January 2022, and the handbook was published in June 2022 with the new scheme in effect in December 2022.

From December 2020 to March 2022 IFoA produced four reports under its Actuarial Monitoring Scheme and had its next review underway. IFoA provides feedback to individual participants

as well as producing an overall report. The reports include recommendations for all actuaries working in the relevant field, the identification of good and poor practices and comments on the application of relevant actuarial standards.

IFoA continues to develop its approach to reflective practice discussions (RPD) under its CPD Scheme as its basis for monitoring members' Career-Long Learning. IFoA carried out trial tests prior to conducting formal interviews of its members in 2021. IFoA is continuing to embed the approach and FRC will review the RPD process in 2022/23.

IFoA sought feedback from the participants in its Quality Assurance Scheme (QAS) and reviewed the efficiency and effectiveness of its procedures for accrediting organisations under the Scheme. It streamlined the six-yearly re-accreditation process but enhanced its regular monitoring of accredited organisations by introducing specialist reviews. The changes reflect feedback on the operation of the Scheme from IFoA's QAS Committee. IFoA also refined its annual returns to improve the clarity and completeness of information provided by the accredited organisations to evidence how each achieves the desired outcomes required under the Scheme. FRC considers IFoA's changes to be appropriate but will monitor the effectiveness of the changes in providing IFoA with assurance as to whether accredited organisations continue to meet the QAS outcomes.

Through the Government Response to the consultation on reform, the Government confirms that ARGAs' oversight of the IFoA will be brought on to a statutory basis. The FRC will be engaging in activities to facilitate the transition from the current voluntary oversight arrangement to the new statutory regime, including setting out the regulatory requirements and expectations that ARGAs, in its statutory oversight role, will expect actuarial professional bodies to adhere to. {...]

## 6. Oversight of Governance Arrangements and Climate Change

Our oversight of the bodies'<sup>3</sup> governance arrangements is based on the core principles of independence, effectiveness, fairness, and transparency.

This year our approach to governance focused on the governance of each body's regulatory and educational activities. In relation to the oversight of each of the four regulatory pillars, namely Audit Registration, Audit Monitoring, Enforcement and CPD the oversight team engaged with the RSBs and attended/observed relevant boards and committees.

We also followed up our prior year recommendations which included the reliability of bodies' IT systems, transparency of bodies' websites and their overall governance procedures. All the bodies have taken positive action to improve their governance arrangements in the public interest.

### *Key findings from governance oversight*

<sup>3</sup> In this section only, the term body (bodies) refers to the RSBs, RQBs and the IFoA.

All bodies have the necessary governance structures and arrangements in place to manage and oversee their regulatory activities. We did not find significant shortcomings in the openness of bodies' governance arrangements and governance activity. All the bodies displayed clear information about their purpose, constitution, and structure. All had taken steps, with some still in progress, to action all open prior year recommendations. Most publish regulatory meeting minutes and annual regulatory reports.

We have summarised key findings and recommendations below.

Professional Body	Findings and Recommendations
IFoA	<p>From a review of the publicly available information and discussions with IFoA's executive team it was not obvious to us when the Regulatory Board receives regular reports on public interest matters relating to education and qualifications, or when public interest matters relating to education and qualifications should be escalated to the Board. MRAs are a reciprocal agreement between the Institute and Faculty of Actuaries (IFoA) and another actuarial body which recognises each other's professional qualifications. The new MRAs IFoA entered in 2021 were approved by the Management Board, following strategic direction by Council in accordance with the IFoA's governance framework. We recommend that IFoA has clear internal guidance when matters should be reported to Regulatory Board to ensure that Regulatory Board can fulfil all its responsibilities at the appropriate time.</p>

## ***Review of activities to combat Climate Change***

We considered how decisions on climate change related matters are made by the RSBs/RQBs where relevant to their regulatory responsibilities, as set out in schedule 10 and 11 of the Companies Act 2006, and the Delegation Agreements with RSBs. We obtained an understanding of the key governance steps required to consider climate change matters relevant to their regulatory responsibility.

We obtained information about how the RQBs have included climate change within their syllabi, examinations, and practical experience requirements.

We also gained information about how the RSBs take climate change into account in performing delegated tasks such as Registration, Continuous Professional Development, Audit monitoring and Enforcement.

## **Key findings in relation to Climate Change**

All the professional bodies we oversee have recognised the importance of climate change within their strategy. Most have made available significant educational resources to support their members, however all the bodies have some way to go to embedding climate change and sustainability related considerations into their regulatory frameworks.

[...]

All the professional bodies we oversee have developed learning materials, articles, podcast and /or sustainability pages on their websites [...] and IFoA have or are developing certificated learning programmes in sustainability.

[...]

IFoA has made commitments to address the risks of climate change and to support sustainability, for example by providing more CPD opportunities in this area. Going forward we will consider the extent to which climate-related and sustainability training has been included, when performing oversight of CPD records reviewed in the RSBs' registration and CPD declaration processes and through IFoA's reflective practice discussions.

[...] We will seek to understand how IFoA is incorporating climate change and sustainability in its standards framework, Career-Long Learning and expectations for CPD.

## 7. Regulation of Third Country Auditors

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**November 2022**

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# **Report to the Institute and Faculty of Actuaries (IFoA) on the FRC's actuarial oversight activities in 2021/22**

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