



# Regulatory Developments

## STATUS

1. The report is open, but the appendices are considered confidential and certain sensitive paragraphs are also redacted in blue.

## EXECUTIVE SUMMARY

2. This paper highlights recent news stories and other developments in professional services regulation that may be of interest to the IRB. There is a summary of consultations and consultation feedback in the **Appendix**, however the main body of this report outlines particular items of topical interest.
3. This document discusses the following in more detail:
  - a) FRC Scalebox launched
  - b) FRC publishes minimum standards for Audit Committees
  - c) Research into Audit Committees and ESG
  - d) Rebranding of FRC Professional Oversight Team
  - e) Backlog in local audit market
  - f) Audit market pay
  - g) LSB Annual Report published
  - h) New members appointed to LSB board
  - i) Research on barriers to diversity in legal profession
  - j) Research into bias against BAME solicitors
  - k) Barriers to use of legal comparison websites
  - l) Legal Services Consumer Panel tracker findings
  - m) HMT publish consultation on reforming AML supervision

## RECOMMENDATIONS

4. The IRB is asked to consider whether any of these developments could be of relevance to ICAEW's own regulatory activities and whether it wishes PSD senior management to follow up any of the developments noted here. The appendix is for note, but the board may ask questions of staff where further information is required.
5. The IRB is asked to approve the classification of the paper as open and identify where redaction may be appropriate, as has been highlighted in yellow. Also agree to the non-disclosure of the appendices.

## FRC SCALEBOX

<https://www.frc.org.uk/news/may-2023/scalebox-launched-to-promote-competition-and-quali>

### Scalebox launched to promote competition and quality for smaller audit firms

6. The Financial Reporting Council (FRC) has announced the launch of a new initiative to assist smaller firms in conducting high-quality audits in the Public Interest Entity (PIE) market. The Scalebox initiative aims to promote competition and choice in the PIE audit market and support the FRC's role as an Improvement Regulator.
7. The FRC recognises that smaller firms, or those new to the PIE market, often face challenges in meeting regulatory expectations. The Scalebox will support firms in developing and maintaining audit quality as they grow or start out in the PIE audit market. The FRC say it will also provide valuable insights from the FRC for firms that may come within the FRC's scope for the first time.
8. The Scalebox is overseen by a separate, independent team within the FRC's Audit Firm Supervision (AFS) team. It will focus its work on areas where common findings occur, where requirements are changing or where firms need to focus as they grow.
9. The types of activities that the Scalebox may undertake include:
  - a review of aspects of completed audits to provide feedback on good practice and areas for improvement.
  - a review of a particular element of a firm's system of quality control, including specific areas of audit methodology and audit approach.
  - a review of a firm's actual or proposed governance processes if it has chosen or is planning to adopt the Audit Firm Governance Code.
  - All firms currently in Tier 2 and Tier 3 for FRC Supervision purposes are eligible to join the Scalebox as well as firms intending to enter the PIE audit market.
10. [REDACTED]

## FRC PUBLISHES MINIMUM STANDARDS FOR AUDIT COMMITTEES

<https://www.frc.org.uk/news/may-2023/frc-publishes-minimum-standard-for-audit-committee>

11. The Financial Reporting Council (FRC) has announced the *Audit Committees and the External Audit: Minimum Standard*, following consideration of the consultation responses received from stakeholders.
12. The consultation on the draft proposal for the Minimum Standard was launched by the FRC as a direct response to the Government's consultation on Restoring Trust in Audit and Corporate Governance, which expressed the intention to grant statutory powers to ARGAs (Audit, Reporting and Governance Authority) for mandating minimum standards for audit committees in their role on external audits.
13. The primary objective of the Minimum Standard is to enhance performance and ensure a consistent approach across audit committees within the FTSE350. By setting out clear expectations and guidelines, the FRC aims to support the delivery of high-quality audits and reinforce public trust in the financial reporting process. The standard will apply to FTSE350 companies.

14. Throughout the consultation period, the FRC comment that they received valuable feedback from a wide range of stakeholders, including preparers, investors, audit firms, accountancy bodies and members of the public. The responses were broadly supportive of the standard and have been summarised in the feedback statement.
15. The standard is now available to audit committees on a voluntary basis, ahead of the anticipated legislation that will make compliance with the standard mandatory. The FRC comment that this voluntary adoption period will allow audit committees to familiarise themselves with the requirements and proactively enhance their practices.
16. [REDACTED]

## **AUDIT COMMITTEE CHAIRS SHOW KEEN INTEREST AND UNDERSTANDING OF ESG ACTIVITIES**

<https://www.frc.org.uk/news/june-2023/audit-committee-chairs-show-keen-interest-and-unde>

17. The Financial Reporting Council (FRC) has published a research report about Audit Committee Chairs' (ACCs) views on, and approach to Environmental, Social and Corporate Governance (ESG) activities and reporting.
18. The report, commissioned by the FRC and conducted by independent research agency YouGov, involved qualitative interviews with 40 ACCs of Public Interest Entities (PIEs), representing a diverse range of organisations, including FTSE 100 and FTSE 250 companies, other listed equities, building societies, and unlisted banks.
19. Aimed at gaining a deeper understanding of ACCs' views and approaches towards ESG reporting and assurance, the report highlights the work that ACCs are already doing in this space, recognising the importance of ESG as an integral part of good business practice and effective stakeholder communication. The respondents noted its increased significance in recent years, triggered by the COVID-19 pandemic and heightened awareness of environmental and social issues.
20. ACCs showed a strong interest and understanding of ESG activities within their organisations. However, their involvement in decision-making processes, particularly related to environmental and social elements, is often limited and their primary role lies in risk management, compliance, and ensuring effective reporting.
21. Some interviewees also expressed concerns about the broad and evolving nature of ESG, making consistent measurement and reporting challenging across sectors and markets. They called for practical, sector-specific guidance to measure environmental and social activities and welcome best practice examples to ensure meaningful ESG reporting without excessive reporting requirements.

## **FRC PROFESSIONAL OVERSIGHT TEAM BECOME PROFESSIONAL BODIES SUPERVISION TEAM**

<https://www.frc.org.uk/news/june-2023/professional-bodies-supervision>

22. The Financial Reporting Council has announced that the Professional Oversight Team (POT) has been restructured and will be known as the Professional Bodies Supervision (PBS) team

going forward. The FRC comment that the change reflects an agreement made last year by the Board of the FRC for a new strategy for POT to deepen and strengthen supervision of the Professional Bodies, building on the existing successful FRC supervision model for audit firms. [REDACTED]

23. The FRC comment that the new structure will enhance the leadership and management of PBS and the FRC also announce the appointment of a new Deputy Director, Dhruve Shah, to support the supervision of the management team. Dhruve joins from the National Audit Office and he will oversee the five teams within PBS, namely:

- Supervision of Professional Bodies
- Supervisory Functions
- Qualification & Learning
- Quality Assurance & International
- Operational Assurance

24. The FRC comment that these changes will enable them to prepare for the additional powers that will be established by ARGA to enhance the way FRC oversees the accountancy and actuarial professions.

## BACKLOG IN LOCAL AUDIT CASES

<https://www.room151.co.uk/151-news/frc-to-propose-policy-direction-to-tackle-council-accounts-backlog/>

25. The FRC has said that it is very close to proposing a broad policy direction to the government, aimed at helping solve the local authority accounts backlog. The FRC are also focused on building a workforce strategy to ensure the long-term sustainability of audit.

26. Local audit experts have mixed views on how achievable it is to build capacity in the workforce. Paul Grady, partner at Azets, has said that one of the “biggest barriers” in building capacity in the workforce is the specialism and skill set needed to perform audits. However, Alison Ring, the ICAEW’s director of Public Sector and Taxation, argued that the challenge is making the job role in local audit attractive to people. She suggested that this could be done by highlighting how audits are useful for councils and add value. This comes as a report by the Public Accounts Committee, highlighted that there are still too few key audit partners and other experienced staff working in the local audit market.

## AUDIT MARKET PAY

### Pay junior auditors more if you want to attract staff, watchdog’s chair says

<https://www.fn london.com/articles/pay-junior-auditors-more-if-you-want-to-attract-staff-watchdogs-chair-says-20230613>

27. The chair of the FRC, Sir Jan du Plessis, has said in an interview with the Financial Times that junior auditors should be paid more to attract them to the profession. In his view, tough standards on the audit sector shouldn’t put off young recruits if the salaries are higher.

28. Sir Jan said that more people could be attracted to an audit career if the Big Four upped their pay packets at the lower levels. “There has been a significant increase in profitability at all the

audit firms. They have the resources available to increase the pay levels of more junior people that they want to attract into their firms and it's up to them whether they want to do so," he said.

29. Escalating pay comes with robust rules, however, Sir Jan told the FT. "If you're a young person today looking to join a profession, I'd have thought you'd want to join a profession that sets very high standards," he said. "If we want to maintain standards in public life, individuals who want to have big jobs like that have to accept that from time to time the ball is going to bounce wrongly for them."
30. But Sir Jan said that companies themselves should also take responsibility for providing accurate figures, and accountants should not to take all the blame when errors occur. "We cannot just place all the onus on the audit firms," he told the paper. "We should be more prepared to hold to account the people who prepare the reports rather than just the auditors. Politicians, journalists and others just found it really easy to put all the blame on the Big Four because they make for easy targets," he added.

## LSB ANNUAL REPORT

[LSB-Annual-Report-Accounts\\_Final-web-with-correction-slip.pdf \(legalservicesboard.org.uk\)](#)

31. The Legal Services Board (LSB) published its Annual Report and Accounts for the year ended 31 March 2023. It describes the work completed and the LSB's impact, focused on ensuring legal services are accessible and better meet the needs of society. The report covers the second year of the LSB's Reshaping Legal Services strategy.
32. The LSB describe some key projects and activities they undertook during the year including:
- Delivering a significant programme of work to make it easier for the public to access legal services. It culminated in a statement of policy on empowering consumers, which sets high-level expectations of what regulators should do to provide people who need legal services with the knowledge and capability to engage effectively with the market. This includes helping them to access useable information about the price, quality and service of legal services providers.
  - Completing a major project to promote confidence that lawyers have the right skills, knowledge, and behaviours to protect their interests and enforce their rights. The result was a statement of policy on ongoing competence, which sets expectations of what regulators should do to ensure that the legal professionals they regulate remain competent throughout their careers.
  - Continuing efforts to call for a small business legal support strategy to address their unmet legal needs and improve access to justice. This was supported by LSB research showing that small businesses face a significant access to justice gap and can struggle to engage in the market.
  - Supporting the sector to develop and deliver services that take account of the vulnerabilities consumers face when they need and use legal services. The LSB published case study research exploring the vulnerabilities and barriers people experience.
  - Taking effective action to resolve disputes and disagreements between the Chartered Institute of Legal Executives (CILEX) and CILEX Regulation Limited (CRL). The LSB concluded that it was not necessary or proportionate to take formal enforcement action against CILEX or CRL, and the LSB are monitoring progress in relation to the undertakings the bodies have given to fulfil the recommendations.
33. The LSB comments that the Annual Report and Accounts show that they continue to manage resources diligently and deliver value for money for levy-payers and the public. The LSB's budget for the year was £4.287m, and the actual outturn was £4.26m, 0.6% within budget.

## LSB ANNOUNCES 3 NEW MEMBERS

### [Legal Services Board announces new Board Members - The Legal Services Board](#)

34. The Ministry of Justice and Legal Services Board have announced the appointments of Kate Briscoe and Lizzie Peers as new lay members of the Board of the LSB. Barrister Clare Brown has also been appointed as a new non-lay member of the Board.
35. Kate Briscoe and Clare Brown have been appointed from 1 June 2023 for four years. Lizzie Peers has been appointed from 1 October 2023 for four years.
36. Non-Lay member Jemima Coleman will step down from the Board on 31 May 2023, having served two terms.
37. Kate Briscoe is the CEO and Co-Founder of LegalBeagles; the UK's largest legal advice forum as well as JustBeagle; an independent search and legal comparison site to directly connect consumers to 10,000 regulated law firms across England and Wales. She has served as an expert panel member for the Solicitors Regulation Authority and, as a consumer rights advocate and consumer litigator, at Howlett Clarke Solicitors.
38. Clare Brown is a Barrister at 2 Temple Gardens. She is on the Treasury A Panel and is frequently instructed by the Government in high profile public law cases. She formerly worked for the European Court of Human Rights and for the Ombudsman of Human rights in Bosnia. Clare is also a senior lecturer on the Bar Course at City Law School, University of London.
39. Lizzie Peers has over nine years' experience as a Non-Executive Director across a variety of national and local organisations including the University Sussex NHS Foundation Trust, the Ministry of Justice, DEFRA, the National Police Chiefs' Council and the Local Government Boundary Commission for England. She has over 20 years of experience as an external auditor and regulator with the Audit Commission and Ernst and Young LLP.
40. In addition to the appointment of new board members, the LSB have appointed Richard Orpin as the new Director of Regulation. Richard is formerly from Ofcom where he led the engagement with government and parliament on all broadcasting and media matters. Sophie Wales and Elaine Griffiths have an introductory meeting with Richard on 4 July.

## LSB RESEARCH SHOWS SYSTEMIC BARRIERS TO DIVERSITY

### [The lived experiences of legal professionals \(legalservicesboard.org.uk\)](https://legalservicesboard.org.uk)

41. The LSB has published a research paper on 'The lived experiences of legal professionals: Barriers to getting in, being in and getting on'. The purpose of the research was to gain a better understanding of the barriers to inclusivity that exist within the legal sector.
42. The study had three objectives:
  - Understand the real-life experiences of participants when it comes to counter-inclusive practices in the workplace in the last three years.
  - To look at how these practices have impacted the work, career and personal lives of participants.
  - To gain a better understanding of how to address counter-inclusive practices.

43. Some of the key findings of the study suggest that the legal industry needs to do more to move beyond the traditional law firm culture. When it comes to entering (or re-entering the legal profession), participants spoke of feeling hindered in their job applications if they did not have the necessary contacts, attend certain universities, or they were joining from another profession. In part, this was attributed to the existence of company policies and processes that do not provide adequate support to applicants from under-represented groups within the profession.
44. Some participants reported “surviving” but not “thriving” within the legal sector due to the lack of inclusivity. This meant they tended to move sideways within their career rather than upwards, and some left altogether.
45. Participants with health conditions reported that some employers still do not offer flexible home working. The requirement to return to a traditional office workplace post-COVID-19 has left many with long-term health conditions feeling overwhelmed and under-supported.
46. The study highlighted that many law firms are “set in their ways” and that more needs to be done to encourage more open and enquiring conversations about inclusion and diversity. This includes the acceptance “that equity of opportunity means there will be differences in experiences of support”.
47. The study found that counter-inclusive practices have negative impacts on workers’ well-being, productivity, and career development. And unfortunately, many people are reluctant to speak out about their counter-inclusive experiences out of fear of damaging their career opportunities. Participants highlighted the need for a “mindset and culture shift” within the legal sector to ensure that “difference is valued and is seen as valuable to attract and retain a diverse range of talent”.
48. While many law firms across the UK have put in place policies for greater inclusivity, more needs to be done. The study highlights that in some law firms, the old ways persist.
49. Matthew Hill, Chief Executive of the LSB, said about the study, *“The insights provided by this study highlight enormous opportunities to make things better by changing the way the sector does business. We hope anyone serious about inclusion in the legal services sector will use the research to tackle the barriers that lawyers face every day”*.

## RESEARCH INTO BIAS AGAINST BAME SOLICITORS

[Misconduct: 'No simple explanation' for race bias in complaints | News | Law Gazette](#)

50. The SRA has published research into bias against BAME solicitors in disciplinary proceedings. The research concludes that there is no simple explanation for the over-representation of Black, Asian and minority ethnic solicitors in complaints to the SRA about potential misconduct.
51. One suggestion is that the over-representation could be due to socio-cognitive biases - skewed ways of thinking that affect people’s ability rationally to assess the person providing the service.
52. A second potential explanation relates to where solicitors work and what they do. ‘For example,’ the review says, ‘Black, Asian and minority ethnic solicitors may be over-represented in work areas or firm environments and circumstances that by their very nature are more likely to generate complaints.’ The SRA has run a number of projects over the past 15 years examining why a disproportionate number of solicitors complained about and investigated are from minority ethnic backgrounds. In 2014 a review conducted by professor Gus John cleared

the regulator of institutional racism. John's review did not examine the imbalance in complaints raised.

53. In 2020/21, Asian solicitors made up 12% of the practising population but 18% of those reported to the SRA and 25% of those taken forward for investigation. Black solicitors, who made up 3% of the practising population, made up 4% of those reported to the SRA and 5% of those taken forward for investigation.
54. Writing for the Law Gazette , SRA chief executive Paul Philip says: 'The findings of this research confirm what we suspected. There is no simple explanation as to why Black, Asian and minority ethnic solicitors are over-represented in reports made to us. That means that we now need to look into the factors identified in greater detail in order to understand how specifically they may manifest in our profession, and try and understand how these issues can be addressed.'
55. The findings of this research are of interest given previous board discussions about how PSD can seek to understand the diversity profile of complainants and subjects of complaints in ICAEW conduct cases.

## **BARRIERS TO LEGAL COMPARISON WEBSITES**

[SRA | Consumers and law firms find reviews helpful but more to do to enable easier comparisons | Solicitors Regulation Authority](#)

56. The SRA has published the results from a year-long pilot (run with the Council for Licensed Conveyancers, and CILEx Regulation) exploring the use of quality indicators and comparison websites within the legal market. The review found that while the public finds customer reviews and comparison websites helpful in choosing a legal services provider, barriers remain to making factual information on services and performance more readily available.
57. Bringing together a range of leading digital comparison providers with 70 law firms, the pilot sought to understand and test how the two could better work together to benefit both consumers and the firms.
58. Key findings include:
  - Engagement with customer review websites is far higher among both the public and law firms than for sites comparing price or other factual information about legal services providers.
  - Barriers to comparison sites being more widely used within the legal market include a lack of public awareness, the complex nature of legal services and the relatively limited range of data available on firms profiled.
  - Nearly half of law firms (44%) encourage existing clients to post reviews to third party sites and the majority who do this see it as providing a positive business benefit.
  - In terms of prices, many firms felt that their own websites, where prices could be set in wider context with background information, was a more appropriate place to make such information accessible. Introduced in 2019, Transparency Rules require all SRA-regulated law firms to publish key price and service information online for specified legal services.
59. Participating comparison websites signed up to a voluntary code of conduct and agreed to provide insights and feedback throughout the pilot period. With sites including Trustpilot,

ReviewSolicitors and Law Superstore reporting a significant increase in the number of reviews submitted, visits to their site and number of firms taking active ownership of their profile.

60. Paul Philip, Chief Executive of the SRA said: 'The public increasingly expect to find readily available and comparable information online to help inform their buying decisions.'
61. 'Easy access to the sort of information that allows consumers to compare the quality of the legal services they are looking for benefits both consumers and firms.'
62. 'Our pilot demonstrated that while progress is being made in this area, there is clearly still some way to go in both identifying the most useful indicators of quality and working more closely with those who can help share this data.'
63. The pilot also considered what further indicators of quality may be useful in helping consumers make more informed decisions. Areas explored included data on complaints, errors in conveyancing transactions and employment case outcomes. However in all these areas challenges exist in identifying data that consumers can readily compare without wider context.'
64. While the pilot has come to an end, the regulators have committed to continuing to work with law firms and comparison websites to explore further ways to expand the use and awareness of quality indicators to help the public make informed decisions.'

## LEGAL SERVICES CONSUMER PANEL TRACKER FINDINGS

[Fewer consumers shopping around, but big majority still happy, watchdog finds | News | Law Gazette](#)

65. The key findings from this year's Legal Services Consumer Panel tracker survey are that consumers of legal services are less likely to shop around than they were last year and find it harder to track down information about lawyers.
66. The proportion of people shopping around fell to 39% from 43% last year, while the ease with which information could be found also dipped: 57% could find information about how long services took (down from 62%), 50% found information about PII cover (down from 55%) and 58% knew whether they could complain to the Legal Ombudsman (down from 60%).
67. Shopping around was most common among those using legal services for family matters (48%), accident or injury claims (47%) and conveyancing (45%).
68. Promoters of the sector will point to satisfaction levels of 85% being as high as ever and six percentage points higher than a decade ago. Satisfaction was high across all areas of law and reached 87% for satisfaction with the outcome of the service provided.
69. But reports of information being harder to access and fewer consumers shopping around will alert regulators who have made this a priority. This will also be of particular interest to the Competition and Markets Authority, which has twice criticised the legal sector for lack of transparency and information about lawyers.
70. Sarah Chambers, chair of the Legal Services Consumer Panel, said: 'We are concerned that shopping around has fallen post-pandemic now that "normal" life has resumed. The fact that fewer consumers are finding it easy to find information about the legal services available has only strengthened our resolve to call the CMA's attention to the current state of transparency in the sector, nearly seven years after their initial report.'

71. Despite regulator misgivings about people not shopping around, 80% felt they had a choice in the provider they opted for. This was 16 percentage points higher than a decade ago.
72. When asked how consumers choose their provider, influence from family members and friends continues to be the most popular factor, as it was in 2022. Just 4% of legal service users made their choice based on a customer review website. Almost all consumers (92%) were confident in the choice they made and 68% stated that the overall service and advice they were provided was good or very good value for money.
73. Consumers were most likely to favour a face-to-face contact for their initial meeting with a lawyer rather than through the telephone or email, and more than two-thirds (68%) felt it was important to have met the person working on their case.
74. The findings of the Legal Services Consumer Panel are highly relevant to the discussions PSD have had recently with the LSB about whether there should be a single register of all legal service providers. The potential proposal is that there would be as a one stop shop for consumers to find information about regulated providers of legal services, to inform choice of provider.

## CONSULTATION ON AML SUPERVISION

### SRA Chief Says Single AML Supervisor Better For Lawyers

75. The Solicitors Regulation Authority has called for it to become the single anti-money laundering supervisor for the legal profession as the U.K. government gears up for reforming the U.K. 's anti-money laundering supervisory regime. A single AML supervisor for each of the accountancy and legal sectors is Option 2 under the range of options being considered by HMT in their consultation on AML supervision.

## APPENDICES

	Appendix Name	For consideration or for reference	No of pages
<b>Appendix A</b>	<b>Review of consultations and feedback July</b>	<b>Reference</b>	<b>4</b>
<b>Appendix B</b>	<b>Review of consultations and feedback May and prior</b>	<b>Reference</b>	<b>3</b>

<b>Author</b>	Sophie Wales, Head of Regulatory Affairs and Policy
<b>Date of report</b>	12 July 2023