Mr. Richard Moriarty
CEO
Financial Reporting Council (FRC)
1 Harbour Exchange Square
London, E14 9GE

09 January 2026

Dear Mr. Moriarty,

Subject: Audit Enforcement Procedure (AEP): Consultation on proposed updates to the FRC's routes to resolution

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the UK Financial Reporting Council's (FRC) AEP consultation on proposed updates to the FRC's routes to resolution.[1]

Led by investors responsible for assets under management of over US$ 90 trillion, ICGN promotes high standards of corporate governance and investor stewardship globally. Our membership is based in more than 40 countries and comprises asset owners, asset managers and advisers.

High-quality, independent audits, operating under a proportionate and effective regulatory regime are fundamental to the reliability of financial reporting on which investors base their capital allocation and stewardship decisions. Investors ultimately bear the economic consequences when audits fail. We therefore place great importance on an enforcement regime that is credible, timely, transparent and proportionate.

We welcome the FRC's end-to-end review of its enforcement framework and its proposals to introduce a more graduated set of 'routes to resolution', clarify the public-interest test and strengthen governance around case selection and decision-making.

We believe that the overarching goals of the review of the process should be to speed up the process, while maintaining the proportionality and effectiveness of the enforcement regime in promoting continuous improvement in audit quality.

Governance, case assessment and public-interest test

We welcome the proposal to replace the Case Examiner with a Designated Officer and the proposed re-wording of the evidential and public-interest test.

Constructive Engagement and Published Constructive Engagement

We support the continued use of Constructive Engagement (CE) for lower-level issues where the primary objective is rapid remediation and learning, and where an investigation and sanctions would be disproportionate.

We particularly welcome the creation of Published Constructive Engagement (PCE), which should:

[1] FRC, AEP Consultation, 2025

- allow the FRC to respond proportionately to matters where an investigation is not necessary, but where a private CE would not meet the public interest;
- enable the FRC, as an 'improvement regulator', to disseminate lessons learned across the market; and
- provide investors with better visibility of recurring themes and firm-specific weaknesses that fall short of formal sanctions.

We would encourage the FRC's forthcoming publication policy to set clear expectations that PCE outcomes will normally be accompanied by a concise public summary describing the issue, root causes and agreed remediation.

Early Admissions Process (EAP)

We recognise the potential benefits of the Early Admissions Process proposed in Part 3 of the draft AEP, including more timely outcomes and increased ownership by firms in diagnosing and addressing failings via an agreed 'EAP Factual Account'.

However, we note the risk that the early admissions process could become too light touch and border on the older model of self-regulation. To avoid this, we recommend:

- Guidance should make clear that EAP is only appropriate where:
  - there is no suspicion of criminal conduct (as already proposed);
  - the factual matrix is relatively clear and uncontested; and
  - the issues, while potentially serious, are not of such systemic or high-impact nature that a full FRC-led investigation and public findings are required.
- Executive Counsel should retain full discretion to reject an EAP application, require additional work (including independent review of the firm's enquiries) and, if unsatisfied, revert to the standard investigative route.
- Where EAP is used, the published outcome should clearly explain the nature and seriousness of the breach, the firm's admissions, and the specific remedial actions and any sanctions imposed.

Distinguishing serious from minor/technical breaches

We agree that lighter-touch routes (such as CE, PCE, EAP and AP) may be appropriate for minor or largely technical breaches, such as certain independence issues identified and remedied promptly by the firm, whereas serious audit failures, particularly those involving material misstatements, going-concern issues, systemic firm-wide deficiencies or evidence of misleading regulators, should ordinarily be addressed through full investigation, with clear public findings and robust sanctions.

We would welcome explicit language to this effect in supporting guidance.

Accountability

Investors expect the enforcement regime to drive accountability at the right level and provide meaningful deterrence. However, we acknowledge that the right level of public accountability is a complex issue that requires judgment. In our view enforcement should focus primarily on those with decision-making authority, remuneration and influence commensurate with the risk, while applying proportionality to more junior staff.

The move, noted in the consultation, towards a more 'prudential' firm-wide supervisory approach and away from reliance on a small sample of individual file reviews is welcome. Enforcement outcomes should, where appropriate, address root-cause cultural and system issues.

It is also important to be mindful of the application of requirements by firms, and it would be helpful for the FRC to encourage firms not to over-interpret rules or expectations simply to 'be on the safe side'. Overly defensive practices risk stifling professional scepticism, discouraging talented professionals from remaining in audit and, ultimately, may not enhance investor protection.

Overall, ICGN supports the objectives of the AEP review and the move towards a more nuanced, public-interest-driven and timely enforcement framework. While we welcome the introduction of the Published Constructive Engagement, the Early Admissions Process and the Accelerated Procedure, this must be subject to strong safeguards and clear scoping. In addition, we emphasise the importance of focusing accountability on those with real responsibility and of avoiding a culture of purely defensive compliance and strongly encourage timely and meaningful transparency across all routes to resolution.

Thank you again for the opportunity to share our perspective. If you would like to follow up with questions or comments, please contact Ayan Tewari, Senior Policy Executive (policy@icgn.org).

Yours faithfully,

Jen Sisson

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Chief Executive Officer, ICGN