



Financial Reporting Council

Consultation on the FRC draft Plan and Budget 2024-25

Feedback statement

March 2024

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1. Introduction

The FRC published the draft Plan and Budget 2024-25 in December 2023 inviting responses by 26 January 2024.

In consulting on priorities and resourcing for 2024/25, the FRC acknowledged that we do not expect to receive further statutory powers during the financial year, although we welcome the government's continuing commitment to legislation. We therefore invited views on a one year rather than 3-year plan, and proposed that 2024/25 will be a period:

- to reflect on where our activities can best support improved public interest outcomes;
- to consolidate, and to prioritise the allocation of our resources in pursuit of those outcomes; and
- go further in embedding the importance of our Growth Duty into all our regulatory decision-making.

The FRC's plan was based on a continuing focus on delivering improved public interest outcomes whilst embedding the importance of the Growth Duty across our regulatory activities.

Respondents

Eleven organisations and individuals responded to the consultation:

1. Association of Chartered Certified Accountants (ACCA)
2. Consultative Committee of the Accountancy Bodies (CCAB)
3. Deloitte LLP
4. Ernst & Young LLP
5. Institute of Chartered Accountants for England and Wales (ICAEW)
6. KPMG LLP
7. PWC LLP
8. SME Alliance Ltd
9. Steven Hansen
10. UK Shareholders Association
11. Yasmine Chahed

Delivering our remit

Feedback

Respondents were broadly supportive of the FRC's overall approach to our responsibilities and our commitment to the principles of good regulation.

Stakeholders generally supported the FRC's intention to conduct a review of its strategy and objectives in 2024. They expressed a concern that there should be an appropriate level of consultation and engagement with stakeholders as the review is taken forward, and a willingness to contribute. There was particular focus on the way in which the FRC will further implement the Growth Duty.

Response

In consulting on the draft Plan for 2024/25, the FRC confirmed that our core purpose remains, but with a renewed focus on supporting the UK's growth and international competitiveness in line with our Growth Duty.

The FRC confirmed four of our five existing strategic objectives:

- Set high standards in corporate governance and stewardship, corporate reporting, auditing and actuarial work, and assess the effectiveness of the application of those standards, enforcing them proportionately where it is in the public interest.
- Promote improvements and innovation in the areas for which we are responsible, exploring good practice with a wide range of stakeholders.
- Influence international standards and share best practice through membership of a range of global and regional bodies and incorporate those standards into the UK regulatory framework.
- Create a more resilient audit market through greater competition and choice.

The FRC updated our strategic objective as a regulatory organisation, which was previously based on the expectation of legislation:

- Develop our organisation as a respected, independent, and high-performing regulator; trusted to deliver best-in-class public interest outcomes.

In pursuit of these strategic objectives, the FRC confirms our intention to undertake a full review of our strategy and objectives during 2024/25 and subsequently to publish a 3-year strategy supplemented each year with an annual plan and budget. As part of this exercise we will review the associated KPIs and outcomes measures with a view to enhancing this area of our reporting and better enable stakeholder understanding of our performance.

This will allow us to fulfil our duty towards economic growth. Encouraging good governance, setting standards, promoting improvements, and facilitating a more resilient audit market help to give confidence to the market and drive competition.

We will consult our stakeholders where appropriate on our review of the FRC’s strategy, as expressed in our commitment to transparency in the plan and budget and in line with the Regulators’ Code. The results will also be expressed in future proposed plans that go out to consultation, for our stakeholders to comment and contribute.

The aim will be to offer our stakeholders the clearest understanding of the FRC’s medium-term regulatory strategy whilst allowing flexibility in how we deploy our resources each year. We will continue to report on specific aspects of our regulatory responsibilities, including on our reviews of corporate reports, audit quality, corporate governance and investor stewardship, and our enforcement activities.

We will take specific account of the government’s Smarter Regulation agenda in our review of the FRC’s strategy, considering both the impact of our work on specific areas and its overall contribution to competitiveness in line with our Growth Duty. We will report on our performance in meeting the Growth Duty, and in doing so we will have regard to the recent review of the statutory guidance.

The FRC will continue to meet our commitments under the Regulators’ Code, which are reflected in our ‘four faces’ regulatory approach:



We recognise that many stakeholders would like a comprehensive look-forward of our planned work during the course of each year. To meet this request, later this year we will move to a system of quarterly consultation dates, meaning that any consultations for each period will be released on the same day once per quarter. We will consider the impact of this year’s pre-election periods and communicate the planned consultation content and dates in due course.

Our budget and funding

Some respondents questioned the increases in the proposed budget and asked for greater clarity on the rationale for the increases and the strategic risks that will be mitigated through the increased resources. One respondent suggested that the proposed increases would fall disproportionately on smaller audit firms and SMEs.

Response

In proposing the budget and funding requirement for 2024/25, we were mindful of general economic environment and sought to avoid unnecessary increases in our levies. We confirmed our intention to keep the FRC's headcount broadly flat compared to the forecast level for March 2024.

The FRC sets its budget at the level necessary to deliver our regulatory objectives and drive improvements in the quality of auditing and reporting in the public interest, taking account of our view of the risks to the achievement of our objectives. We are committed to prioritising the use of resources carefully, and during the course of the year we will undertake various projects to review the efficiency and effectiveness of our operations and, where appropriate, make improvements. These activities will be reported on where appropriate in future plans and/or in our annual report.

In allocating our funding requirement to our funding groups we take account of the size of each sector and our priorities in relation to that sector. Our intention is that for each sector the FRC levies are applied proportionately, taking account of the size of the organisations paying the levy. Our intention is that the largest entities within each sector contribute the largest share of our funding.

The accountancy bodies' contribution is requested on the basis that they collectively determine the appropriate contribution from each body. Development of the supervision of the professional bodies model creates a risk-based and proportionate approach to regulation. In the longer term, the approach should result in better outcomes and less burden on all those concerned. In the light of stakeholders' feedback our finalised Budget for 2024/25, provides additional detail on the FRC's planned expenditure for 2024/25 and the allocation of the funding requirement based on that expenditure. ¹We will continue to draw on our reserves with the agreement of Government and report on the use of the reserves in our Annual Report and Accounts.

As a point of clarification, the FRC is fully subject to the requirements of Managing Public Money in line with our status as a public body and a partner body of the Department for Business and Trade. We meet those requirements in the way we operate and prepare our Annual Report and Accounts. The Government Internal Audit Agency are our internal auditors; and the National Audit Office are our external auditors.

Conclusion

The FRC welcomes the detailed and constructive responses to the consultation and will continue to engage with stakeholders during 2024/25, drawing on respondents' comments and suggestions.

¹ [Government-response-to-smarter-regulation-regulating-for-growth](#)



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