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# Feedback Statement on the FRC's Draft Plan and Budget 2013/14

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## **Feedback statement on the FRC's Draft Plan and Budget 2013/14**

### **Introduction**

This report summarises the responses to the FRC's consultation document "Draft Plan and Budget 2013/14, which was published on 22 January 2013 and provides feedback on

- the Plan and Budget in general
- the specific questions asked in the consultation document.

We received 11 responses to the consultation document.

- Four from professional bodies:
  - CIMA
  - CCAB
  - Audit Commission
  - Actuarial Profession
- Four from individual firms:
  - Deloitte
  - KPMG
  - PWC
  - E&Y
- Two from trade associations
  - BVCA
  - ABI
- One business organisation:
  - Aviva

The finalised 2013/14 Plan and Budget is published on the FRC website, together with this feedback statement at: [www.frc.org.uk/about](http://www.frc.org.uk/about).

### **(a) General responses to the draft Plan 2013/14**

#### **1. Clarity of the Plan**

Greater clarity over the FRC's vision and ambitions was requested so the Plan could be seen in context. It was suggested the Plan might be aligned with the post-reform structure of the FRC and the budget similarly aligned to provide greater read through to how the proposals arose. More clarity over headcount proposals would help improve understanding of the budget requirements.

The three year time frame for the Plan was welcomed but it was suggested that the Plan should be flexible enough to cope with future developments such as the final recommendations from the Competition Commission's investigation into the audit services market.

### *FRC Feedback*

Providing a three year focus for the Plan highlights the longer term nature of our work. The Plan has been developed in the post-reform era without hard divisional structures to deliver a cross functional agenda. The future vision of strengthened capital markets through improved trust, greater investor confidence, effective regulation and better governance will be clearer in the final Plan.

## 2. Budget

While some respondents were satisfied or had no comment on the proposed budget, several others did express a desire for further justification of the budget increase, particularly given the ongoing economic conditions and pressures on profits within firms. Only one respondent argued against the budget increase. Others noted that at the time of reform the budget was expected to be cost-neutral but in the 2013/14 Plan a significant, above inflation rise is proposed. One respondent felt this rise should be exceptional in 2013/14 and reversed in 2014/15. A key requirement is to show how the proposed activities and headcount requirements contribute to the budget increase.

### *FRC Feedback*

The budget and levies have been reviewed. Most levy payers will now see increases at no more than the rate of inflation.

## 3. Engagement

Several respondents commented on the need for the FRC to collaborate with other bodies to share research, collaborate on projects and avoid duplicating effort. This could also help offset some of the proposed budget increase.

The FRC was asked to provide clarity on its plans to influence at an international level, explain how it would represent the UK position internationally and was urged to collaborate further with bodies such as the IAASB on projects of mutual interest.

### *FRC Feedback*

FRC collaborates on many of its activities and works closely with many institutions and other bodies to deliver common goals. We will continue to collaborate where we can. We will also initiate primary research where gaps exist and where that is needed for specific projects.

Our role within Europe and globally continues to grow. The Plan elaborates on more of our European collaboration and influencing work.

## 4. Audit developments

The FRC was urged to ensure it has the right skills and resources to undertake monitoring of public sector audits and to justify the funding requirements for this work.

More detail was requested on the regulation of third country auditors including justification for the additional resources required and costs for this work.

The proposed extension to auditor sanctions was questioned particularly whether this will lead to a significant increase in sanctions. The anticipated rise in costs was challenged given this activity is separately funded and costs can be recovered in successful cases.

#### *FRC Feedback*

### **(b) Comments on the specific questions posed**

#### **1. Do you have any comments on the proposed priorities and engagement strategy outlined?**

There were no specific responses to this question.

#### **2. Do you have any comments on the projects and activities?**

Some respondents suggested that the Plan and Budget might be presented in line with the new FRC structure to demonstrate how that is working in practice, to enhance transparency around due process and governance mechanisms as well as avoiding duplicating the work of other bodies.

Some more clarity was requested in order to differentiate between activities which could be described as 'business as usual' and other projects which would have specific end dates.

The concept of a three year Plan was welcomed. Some respondents requested more detail on the projects identified for years 2014/15 and 2015/16. Success measures for activities were requested in order to increase accountability.

The FRC was asked to review the key stakeholder groups named in the Plan to ensure an even handed approach was taken to all groups and that the public interest is appropriately served.

The focus on stewardship from an investor perspective was welcomed and it was suggested could be extended to other investor representatives on a comply or explain basis. Consideration into the long-term financing of stewardship research was also requested.

The work of the Financial Reporting Lab was supported and it was suggested its approach could be used for other activities such as engaging further with IASB work on IFRS9 and reviewing IFRS for SMEs.

The use of impact assessments was requested before new regulations are proposed , with careful cost/benefit analysis. It was also requested that the FRC concentrates on clear concise disclosure requirements that are important to stakeholders and avoids excessive disclosure initiatives. One respondent asked that narrative reporting should be a top priority for the FRC and that the Corporate Governance Code should be developed to show how well executive board members live the culture, ethics and long term interests of their companies.

The FRC was requested to collaborate more with other bodies to avoid duplicating work through

'over-research' and give more detail on how it plans to engage effectively at an international level, particularly in relation to cooperating with the IAASB on issues around auditor reporting and maintaining the UK's international influence.

Comments were made about the need for the FRC to ensure it has the rights skills and understanding of ethical standards for public sector audits and to justify its resource and funding requirements for this work. More detail was requested on the regulation of third country auditors, including justification for the additional resources required and a call to manage carefully the costs of this work.

The inclusion of a programme of activity for actuarial oversight was welcomed by one respondent with a request from another respondent for more clarity on what this work involves.

One respondent questioned whether the proposed extension to auditor sanctions was merited and whether this will lead to a significant extension of sanctions. The same respondent questioned whether the FRC should really expect the costs of disciplinary activity to increase given this is separately funded and costs can be recovered in successful prosecutions.

#### *FRC feedback*

We note the comments about the structure but stress the Plan has been developed following the internal reforms of 2012 which enabled greater collaboration and cooperation across the FRC. The Plan has been developed with this thinking in mind to avoid the appearance of operating in silos.

Particularly given the three year time horizon for this Plan, it will be kept under review for market changes such as the final outcome of the Competition Commission's investigation into the audit services market and to enable detail to be available as future years' project emerge and evolve.

The FRC recognises the importance of collaborating with institutions and other bodies which share common goals for markets and regulation. In particular we are growing our influencing abilities within Europe and on the global stage. The Plan includes more detail on this activity.

We are growing our resources with additional people who bring necessary skills and experience to undertake new functions, including public sector audits, and enhance existing operations in order to meet our obligations. More detail on this is included in the Plan and Budget.

### **3. Do you have any comments on our draft budget for 2013/14?**

Some respondents either expressed no comment or were satisfied with the proposed budget for 2013/14.

The remaining respondents requested more detail on where the increases in costs arise and commented that, while the costs of reform in 2012 were expected to be cost-neutral, the proposed budget and associated levy increases for this Plan are above inflation rises. More detail was requested to show which specific areas of activity have led to increased expenditure, including a

split of the headcount requirement across the FRC.

While the Disciplinary scheme retains support, the FRC was urged to control expenditure better and introduce greater accountability for this activity. One respondent expected cost increases in 2013/14 to be exceptional but to be reversed in 2014/15. Another respondent noted economic pressures and requested the FRC to re-examine its delivery model and adjust its budget to be more in line with economic reality.

One respondent did not support the 9% increase in levy when its own members were only being asked for a 3% increase. This same respondent wanted to see closer alignment of levies to activity undertaken and expected levy collection to be realigned proportionately after conclusion of FRC's work on audit market concentration.

#### *FRC Feedback*

We are mindful of the economic circumstances in which our stakeholders operate and have reviewed our levies to reflect this. Our budget contains greater explanation of the cost requirements to undertake our obligations.

#### **4. Do you have any comments on our proposed preparers levy for 2013/14?**

Only one respondent commented and welcomed the proposal to increase resources for work on codes and standards and governance and reporting.

#### *FRC Feedback:*

FRC notes the points raised by other respondents about associated levy increases in the previous question about the proposed budget.

#### **5. Do you have any comments on our proposal to align the FRC levy arrangements with the current UK listing Regime?**

There were no specific responses to this question

#### **6. Do you have any comments on our proposals in relation to the insurance and pension levy rates for 2013/14?**

There were no specific responses to this question.



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