



FINANCIAL REPORTING COUNCIL

DRAFT UPDATED REGULATORY STRATEGY AND PLAN & BUDGET 2007/08

DECEMBER 2006



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Introduction

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

This document invites views on:

- Our **Draft Updated Regulatory Strategy**, incorporating a Strategic Framework which sets out the outcomes underpinning our mission statement.

The independent survey of stakeholder confidence in corporate reporting and governance in the UK which we commissioned in 2006 (summarised in our Annual Report 2005/06) suggested that levels of confidence in reporting and governance in the UK remained high. However, many stakeholders also suggested that we needed to do more to publicise our work and enhance our ability to engage with our stakeholders.

As part of our response to this feedback, we believe that it would be helpful for our Regulatory Strategy to evolve to focus primarily on outcomes rather than on the activities we undertake. The draft Strategic Framework sets out the outcomes and other elements we believe contribute to confidence in corporate reporting and governance. Some elements of the Strategic Framework are principally the responsibility of the FRC; most, however, depend principally on market participants or other agencies.

- Our **Plan & Budget 2007/08**, which sets out our priorities for 2007/08 and the costs we expect to incur.

The activities and projects which we propose to undertake in 2007/08 are derived from our draft Strategic Framework. They are intended to contribute to the achievement of the outcomes and other elements in that Framework. The key themes of our Plan for 2007/08 are that we will:

- Lead public debate in the UK on the major issues affecting confidence in corporate reporting and governance
- Monitor corporate reporting and governance practices in the UK and take enforcement action where appropriate
- Increase our participation in the development of international standards and co-operation with international regulatory organisations
- Contribute to modifying the UK regulatory regime to take account of changes in European and UK legislation.

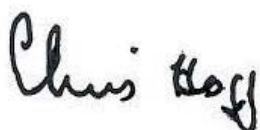
In relation to our responsibilities for accounting, auditing and corporate governance, our budget takes into account additional work resulting from new international aspects of audit regulation, our additional responsibilities arising from the implementation of the Transparency Directive and the implications of the intended application of the Freedom of Information Act to our Professional Oversight Board.

In relation to our responsibilities for actuarial standards and regulation, our budget for core operating costs reflects the fact that our staffing for these new responsibilities increased progressively in 2006/07, with the result that 2007/08 will be the first year in which we expect to be fully staffed.

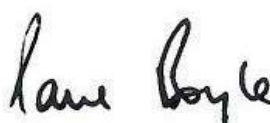
Our governance and accountability arrangements are under review at present. The current arrangements are set out in the version of our Regulatory Strategy (version 2.1) published in May 2006, available on our website at www.frc.org.uk/documents/RegulatoryStrategy2.1May06. Should we wish to amend these arrangements we will consult on our proposals.

We would welcome feedback from interested parties on the questions on pages 9 and 24, and any other aspects of our proposals, by 28 February 2007. Contact details are provided in Annex F.

In the light of the feedback we receive, we will publish in April 2007 an updated Regulatory Strategy incorporating the Strategic Framework and, if appropriate, a revised Plan & Budget 2007/08.



Sir Christopher Hogg
Chair



Paul Boyle
Chief Executive

One – Our aim and remit

Our overall aim is to promote confidence in corporate reporting and governance.

We see confidence in corporate reporting and governance as vital to the healthy functioning of business and markets and thus as making a significant contribution to the economy overall and the UK's competitiveness in international markets.

We have identified six Strategic Outcomes which contribute to our overall aim:

- **Outcome One – Corporate governance**
Companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.
- **Outcome Two – Corporate reporting**
Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.
- **Outcome Three – Auditing**
Users of audit reports can rely on the audit opinion as to whether financial statements show a true and fair view.
- **Outcome Four – Actuarial practice**
Users of actuarial information can rely on its relevance, reliability, transparency of assumptions, completeness and comprehensibility.
- **Outcome Five – Professionalism of accountants and actuaries**
Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.
- **Outcome Six - FRC effectiveness**
The FRC is an effective and independent regulator, actively helping to shape UK, EU and international approaches to corporate reporting and governance.

The draft Strategic Framework in section three of this document sets out these Outcomes in more detail.

The functions we exercise to promote confidence in corporate reporting and governance can be summarised as follows:

- promoting high standards of corporate governance
- setting, monitoring and enforcing accounting and auditing standards
- setting actuarial standards
- statutory oversight and regulation of auditors
- operating an independent investigation and discipline scheme for public interest cases
- overseeing the regulatory activities of the professional accountancy and actuarial bodies.

Some of our functions are supported by statutory powers, or by statutory obligations on other parties to meet our requirements - "quasi-statutory" powers. Some of our functions have no statutory backing but derive their authority from widespread support from our stakeholders.

Our functions are exercised principally by our operating bodies (the Accounting Standards Board, the Auditing Practices Board, the Board for Actuarial Standards, the Professional Oversight Board, the Financial Reporting Review Panel and the Accountancy Investigation and Discipline Board) and by the Council. The Committee on Corporate Governance, whose members are drawn from the Council, assists it in its work on corporate governance. The operating bodies and the Council are supported by the FRC's professional staff (the "Executive"). Our organisational structure is shown in Annex B. The terms of reference of our operating bodies and the Committee on Corporate Governance are set out in Annex C.

We believe that there are strong connections between the issues of corporate governance, corporate reporting, auditing, actuarial practice, and the professionalism of accountants and actuaries. We believe that the breadth of our responsibilities and functions enhances our effectiveness.

We are mandated to operate independently from those whose activities we regulate. We operate with the support of the Government and our other stakeholders. Our statutory powers derive from Parliament.

The range of "corporate" entities is very wide. Our activities are mainly directed towards listed companies and companies required to prepare accounts under the Companies Acts, the vast majority of which are small enterprises. They are also relevant to other organisations, including pension funds and public benefit entities, which include most public sector organisations and many other not-for-profit bodies. Some other entities which are not "corporate" entities (e.g. partnerships) may be required to follow our standards.

Two - Our approach to regulation

We do not regard regulation as an end in itself. We believe in wealth creation. We believe that our role in promoting confidence in corporate reporting and governance, as part of a regulatory framework that promotes enterprise, investment and employment, can make the creation of wealth more likely.

We will use our influence and our powers to promote a regulatory regime in which high standards of corporate reporting and governance underpin the healthy functioning of markets to the benefit of business, investors, employees, insurance policyholders, members of pension schemes and other interests, and enhance the UK's economic strength in competitive international markets.

For public benefit entities, we believe in high standards of governance and stewardship and in the best use of resources. While we acknowledge that the responsibility for setting standards for public benefit entities often rests with the Government or other authorities, we believe that our role can make these outcomes more likely.

We will pay close attention to signals from markets, from investors and from other interests to ensure - through consultation and research - that we add value and do not impose unnecessary burdens. We believe that our approach should be proportionate to the issues we are addressing.

Significant aspects of the regulatory policy for corporate reporting and governance are now decided or heavily influenced by European or global organisations. We, therefore, place great importance on our ability to influence these organisations - actively helping to shape EU and global approaches and priorities in the areas of corporate governance, accounting, auditing, actuarial practice and in ways that contribute to international confidence in corporate reporting, are proportionate, and do not impose unnecessary burdens.

We are committed to the Better Regulation Commission principles of good regulation: proportionality, targeting, consistency, transparency and accountability. We will:

- Work on the basis that a well-informed market is the best regulator but, in relation to some of our responsibilities, we have been given significant powers and we will not hesitate to use them where appropriate.
- Target the use of our powers, taking a proactive, risk-based and proportionate approach, making effective use of Regulatory Impact Assessments and having particular regard to the impact of regulation on small enterprises.
- Emphasise principles and clarity in our standard-setting and rule-making and seek to ensure, as far as it is appropriate to do so, that we are consistent with international standards.
- Be consultative - involving preparers, auditors, actuaries, users of corporate reports and other regulatory organisations in our decision-making and allowing adequate time for consultation, without compromising our independence or confidentiality.

- Recognise the importance of professional judgement in the way in which standards and rules are applied and enforced.
- Where we discharge a judicial or quasi-judicial function, do so in accordance with our formal powers and the rules of natural justice.
- Be transparent, accountable and efficient in our work, and ensure that it receives appropriate publicity.

We believe that companies and pension funds, supported by their professional advisers and encouraged by the investor community, have the primary responsibility for achieving high standards of reporting and governance. An ethical approach to business should make the achievement of these standards more likely. We are very clear that no system of regulation can ever eliminate the possibility of corporate reporting or governance failures; we believe that it is impossible to achieve zero failure and any attempt to do so would destroy wealth rather than facilitate its creation. We can, however, influence the actions of those responsible for corporate reporting and governance.

Three – Our draft Strategic Framework

The six Strategic Outcomes set out in section one of this document form part of a Strategic Framework which consists of four elements.

- the overall Aim which the FRC promotes – confidence in corporate reporting and governance
- the six Strategic Outcomes which contribute to our Aim
- the Supporting Outcomes which contribute to the six Strategic Outcomes
- the major Components which contribute to the achievement of the Supporting Outcomes.

The proposed Supporting Outcomes and major Components in the Strategic Framework are stretching but realistic medium-term aspirations in relation to the key aspects of corporate reporting and governance. The Strategic Outcomes are, to a significant degree, mutually supporting in that achievement in relation to one of the outcomes can contribute to achievement in relation to one or more others. It is not essential that all of these elements are found in practice in every case. However, we believe that the greater the extent to which they are found, the greater will be the overall level of confidence in corporate reporting and governance.

It is in the nature of our aim and remit that while some of the elements set out in the draft Strategic Framework are principally the responsibility of the FRC, most depend principally on market participants or other agencies. We see the development of the Framework as a way of facilitating co-operation between our wide range of stakeholders to promote well-founded confidence in corporate reporting and governance in the UK.

Each Strategic Outcome (other than that relating to our own effectiveness) has Supporting Outcomes which have three common themes:

- Firstly, the importance of a proportionate and effective legislative and regulatory framework that defines high standards in corporate governance and reporting. Those standards include standards and guidance on best practice set by Government, the FRC, other regulatory authorities and the professional bodies.
- Secondly, the central implementation role of those directly responsible for governance and the preparation of reports, audits, actuarial and other relevant professional advice in meeting those high standards – including boards, auditors, members of the accountancy and actuarial professions and the firms to which they belong.
- Thirdly, the importance of effective monitoring of the quality and integrity of reporting and governance – including the role of institutional shareholders, audit committees, the regulatory authorities (including the FRC's own monitoring activities) and the professional bodies – and, where appropriate, arrangements for enforcing legislative and regulatory requirements.

Where the FRC or one of our operating bodies has the lead responsibility for major Components, this is recorded in the Strategic Framework.

The Strategic Framework will be supported by a number of other publications, including statements, standards, guidance and discussion papers published by the FRC – and where appropriate cross-references to the legislative framework and standards and guidance provided by other authorities. These other publications will contain more in-depth consideration of the Outcomes and Components than is possible in the Framework itself.

The Strategic Framework is intended to provide a basis for assessing levels of confidence in corporate reporting and governance in the UK. It will also help us to select the activities and projects we include in our annual Plan & Budget by allowing a more precise assessment of the risks to confidence in corporate reporting and governance.

Questions on our draft updated Regulatory Strategy

1. Are there any elements included in the draft Strategic Framework which are not appropriate for inclusion?
2. Are there any elements relevant to confidence in corporate reporting and governance which are sufficiently important to be included in the Strategic Framework but which have been omitted?
3. Are there any other aspects of the FRC's draft updated Regulatory Strategy on which you wish to comment?

Draft Strategic Framework

Overall Aim: Confidence in corporate reporting and governance	
Strategic Outcomes which contribute to the Overall Aim:	
<p>Outcome One: Corporate Governance</p> <p>Companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.</p>	<p>Outcome Two: Corporate Reporting</p> <p>Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.</p>
<p>Outcome Three: Auditing</p> <p>Users of audit reports can rely on the audit opinion as to whether financial statements show a true and fair view.</p>	<p>Outcome Four: Actuarial Practice</p> <p>Users of actuarial information can rely on its relevance, reliability, transparency of assumptions, completeness and comprehensibility.</p>
<p>Outcome Five: Professionalism of accountants and actuaries</p> <p>Clients and employers of professionally qualified accountants and actuaries and of actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.</p>	<p>Outcome Six: FRC Effectiveness</p> <p>The FRC is an effective and independent regulator, actively helping to shape UK, EU and international approaches to corporate reporting and governance.</p>

Strategic Outcome One: Corporate Governance		
Companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.		
Supporting Outcomes which contribute to the Strategic Outcome (and primary responsibility for achieving them):		
Legislative and regulatory framework (Government and regulatory authorities)	Implementation (Boards of primary listed companies)	Monitoring and enforcement (Institutional shareholders)
a) The legislative and regulatory framework for corporate governance is clear, proportionate and capable of dealing with a wide variety of circumstances and of adaptation to developments in corporate practices.	b) Boards meet the necessary high standards of performance.	c) Institutional shareholders regard good corporate governance as an essential basis for sustained good performance by companies.
Components which contribute to the achievement of the Supporting Outcomes:		
i) Legislative provisions relating to corporate governance, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.	i) There is an adequate supply of skilled and experienced people willing to serve on Boards.	i) Institutional shareholders support shareholder-led enforcement of standards of corporate governance.
ii) Good governance is defined by a Code of Principles outlining good practice, based on a "comply or explain" approach and kept under regular review. (FRC)	ii) Boards accept the Code as a basis for good practice and willingly seek to meet its standards in a way which is consistent with the long-term health of their companies.	ii) Institutional shareholders support the Code, including "comply or explain", as the best instrument for enforcing good corporate governance in quoted companies.
	iii) Companies provide shareholders with information on their governance and performance which is relevant, understandable and balanced.	iii) Institutional shareholders appropriately engage in dialogue with boards on corporate governance matters.
	iv) Boards accept the need to engage with shareholders in dialogue on corporate governance matters.	

Strategic Outcome Two: Corporate Reporting

Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.

Supporting Outcomes which contribute to the Strategic Outcome (and primary responsibility for achieving them):

Legislative and regulatory framework (Government and regulatory authorities)	Implementation (Directors, trustees, etc)	Monitoring and enforcement (Regulatory authorities)
a) The legislative and regulatory framework provides clarity in what is required to provide relevant, reliable, understandable and comparable reports, and underpins the importance of a true and fair view.	b) Preparers strive to ensure that financial statements show a true and fair view and to embrace best practice in the provision of all information in financial reports	c) Financial reporting requirements are appropriately monitored and enforced.
Components which contribute to the achievement of the Supporting Outcomes:		
i) Legislative provisions relating to corporate reporting, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.	i) Preparers apply the principles set out in accounting standards responsibly and with integrity and in a way that reflects the underlying economic reality; and disclose and explain the key judgments made in compiling financial statements and other reports.	i) There is an effective and efficient mechanism to ensure compliance with financial reporting requirements – which provides for risk-based targeting of information for review, and encourages open dialogue with companies and informed referrals from the investor community. (FRRP)
ii) Accounting standards provide an effective framework for the preparation of financial reports, are principles-based and serve the public interest. (ASB)	ii) Directors set out a clear and balanced analysis of the development, performance, strategic position and future prospects and direction of their business that enables investors to make informed decisions, including an assessment of the stewardship of the relevant entity.	
iii) The standard-setting body plays an influential role in the development of international accounting standards, and plays an influential role in Europe. (ASB)		
iv) The standard-setting body maintains an appropriate and high quality regime for UK accounting standards – which takes account of the size and degree of public interest in the entities to which the regime applies. (ASB)		
v) There is guidance on the meaning of "true and fair" to guide preparers and to maintain confidence in the financial reporting regimes in place. (FRC)		
vi) There is best practice guidance to preparers on aspects of financial reporting not covered by accounting standards, such as narrative reporting. (ASB)		

Strategic Outcome Three: Auditing		
Users of audit reports can rely on the audit opinion as to whether financial statements show a true and fair view.		
Supporting Outcomes which contribute to the Strategic Outcome (and primary responsibility for achieving them):		
Legislative and regulatory framework (Government and regulatory authorities)	Implementation (Auditors and audit firms)	Monitoring and enforcement (Audit committees and regulatory authorities)
a) The legislative and regulatory framework provides clarity on the role and purpose of audit and the standards which auditors should meet.	b) Audits are undertaken by an experienced, motivated and sceptical team within an effective firm-wide environment in audit firms and an efficient market for audit services.	c) Auditing requirements are appropriately monitored and enforced.
Components which contribute to the achievement of the Supporting Outcomes:		
i) Legislative provisions relating to auditing, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.	i) Audit provides a rewarding career thus attracting, developing and retaining high quality entrants for the long term stability of the profession.	i) Audit committees know what the main drivers of audit quality are, and are pro-active and effective in undertaking their reviews of audit quality and reporting their findings.
ii) Auditing and ethical standards and guidance provide an effective framework for the expected conduct of audits, are principles-based and serve the public interest. (APB)	ii) Audit firms ensure that audit teams have the capability, competence and time to detect errors, omissions or irregularities in the financial statements they are auditing - and adhere to the principles on which auditing and ethical standards and guidance are based and not just the rules.	ii) Audit monitoring focuses on the drivers of audit quality and challenges professional judgement at both the firm-wide and engagement level. (POB)
iii) The standard-setting body plays an influential role in the development of international auditing and ethical standards and plays an influential role in Europe. (APB)	iii) Auditors should report appropriately to shareholders and communicate effectively with audit committees.	iii) The recognised supervisory bodies maintain appropriate arrangements for the monitoring and enforcement of compliance with their rules and for the investigation of complaints. (POB)
iv) There is guidance on the key drivers of audit quality. (FRC)	iv) There is an efficient market for audit services in the UK.	
v) Recognised supervisory and qualifying bodies have effective regulatory systems to support high quality audits.		

Strategic Outcome Four: Actuarial Practice		
Users of actuarial information can rely on its relevance, reliability, transparency of assumptions, completeness and comprehensibility.		
Supporting Outcomes which contribute to the Strategic Outcome (and primary responsibility for achieving them):		
Legislative and regulatory framework (Government and regulatory authorities)	Implementation (Actuaries and actuarial firms)	Monitoring and enforcement (Institutional users of actuarial information, regulatory authorities and the actuarial profession)
a) The legislative and regulatory framework provides clarity on what is required to provide relevant, transparent, clear and complete actuarial information.	b) Actuarial information is provided to a consistently high quality standard.	c) There is effective scrutiny and monitoring to ensure that actuarial information is produced in accordance with the relevant technical and ethical standards.
Components which contribute to the achievement of the Supporting Outcomes:		
i) Legislative provisions relating to actuarial practice, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.	i) Actuaries apply the principles set out in actuarial standards responsibly and with integrity, and in a way that reflects the economic reality.	i) Institutional recipients and users of actuarial information know what the main drivers of quality are, and are pro-active in challenging the quality of the actuarial information they receive.
ii) There is a conceptual framework which sets out the principles and concepts that underlie actuarial information and gives coherence and consistency to the standards. (BAS)	ii) Actuaries communicate clearly the underlying assumptions made and the inherent risks for a range of possible outcomes.	ii) There is a framework of effective scrutiny and monitoring which ensures that actuarial information complies with the relevant technical and ethical standards.
iii) Actuarial standards are developed or amended which are consistent with the conceptual framework (and best practice) and the provision of clear and complete actuarial information. (BAS)	iii) Actuaries supply relevant, reliable and comprehensible information to assist in decision-making by the principal users of actuarial advice.	
iv) Actuarial standards fit appropriately into a framework that includes all relevant regulation (including professional, accountancy and prudential regulators) and take due account of public interest.		

Strategic Outcome Five: Professionalism of accountants and actuaries			
Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.			
Supporting Outcomes which contribute to the Strategic Outcomes (and primary responsibility for achieving them):			
Legislative and regulatory framework (Government and regulatory authorities)	Implementation (Accountants and actuaries and the firms to which they belong)	Monitoring and enforcement (Accountancy and actuarial professional bodies and the regulatory authorities)	
a) There is an effective legislative and regulatory framework for the regulation of accountants and actuaries.	b) Accountants and actuaries, and the firms to which they belong, meet high standards of practice and ethical behaviour, and have regard to the public interest.	c) Compliance with professional and ethical standards for accountants and actuaries is appropriately monitored and enforced.	
Components which contribute to the achievement of the Supporting Outcomes:			
i) The accountancy and actuarial professional bodies maintain appropriate requirements for membership of the accountancy and actuarial professions.	i) There are adequate numbers of high quality individuals entering, and remaining in, the accountancy and actuarial professions.	i) The accountancy and actuarial professional bodies have effective arrangements to oversee the activities of their members and identify shortcomings in their technical performance and ethical behaviour, and have effective systems for the investigation and disciplining of such shortcomings. (POB)	
ii) There are well-understood principles and standards of practice and ethical behaviour established in the public interest for both the accounting and actuarial professions.	ii) Accountants and actuaries maintain and develop the appropriate professional competences, and respect the public interest in, and the ethical rationale for, their work.	ii) There are effective arrangements in relation to public interest cases for the independent investigation of the conduct of members and member firms of the professional accountancy bodies and members of the actuarial professional bodies and, where appropriate, for disciplinary action. (AIDB)	
iii) Standards for reporting on investment circulars, and other assurance services, provide an effective framework for the work undertaken, are principles-based and serve the public interest. (APB)			

Strategic Outcome Six: FRC Effectiveness		
The FRC is an effective and independent regulator, actively helping to shape UK, EU and international approaches to corporate reporting and governance.		
Supporting Outcomes which contribute to the Strategic Outcome:		
a) The FRC meets the principles of good regulation, and is transparent and accountable.	b) The FRC is recognised in the UK and internationally as independent, credible, authoritative and influential.	c) The FRC has adequate resources and management processes and operates efficiently.
Components which contribute to the achievement of the Supporting Outcomes:		
i) The FRC has in place and consistently implements policies on good regulation, including effective use of regulatory impact assessments and having particular regard to the impact of regulation on small enterprises.	i) The FRC has a statutory framework in place to provide the appropriate powers and statutory immunity, and a clearly documented basis for the non-statutory elements of its responsibilities.	i) The FRC attracts, retains and motivates the people required to meet its objectives.
ii) An Annual Report is published which demonstrates that the FRC meets the principles of good regulation and which reflects independent survey evidence.	ii) The FRC demonstrates an appropriate degree of independence from government and the regulated communities.	ii) The FRC manages information effectively and shares information as appropriate within the organisation.
iii) Stakeholders are provided with regular reports and other information, such as assessment of the impact of activities designed to achieve the Strategic Outcomes in this framework.	iii) Effective working relationships with UK Government (including DTI, HMT and DWP), and other UK regulators (including FSA and the Pensions Regulator) are maintained.	iii) The FRC secures the necessary funding and manages its costs effectively.
iv) An annual Plan & Budget is published which reflects timely and thorough consultation with stakeholders.	iv) The FRC effectively engages with, and influences, relevant EU and international organisations, and regulatory authorities in other jurisdictions.	iv) Activities and projects in the Plan & Budget are completed in a timely and effective way and the risks to the achievement of the Strategic Outcomes in this framework are actively managed
	v) There is a clear statement of the relevance of the FRC's work to the public sector and other public benefit entities.	v) The FRC is resilient to disruptions to its activities.

Four – Key features of Plan for 2007/08

The activities and projects which we propose to undertake in 2007/08 are derived from our draft Strategic Framework. They are intended to contribute to the achievement over the medium term of the outcomes and other elements in that Framework.

The key themes of our Plan for 2007/08 are that we will:

- Lead public debate in the UK on the major issues affecting confidence in corporate reporting and governance.
- Monitor corporate reporting and governance practices in the UK and take enforcement action where appropriate.
- Increase our participation in the development of international standards and co-operation with international regulatory organisations.
- Contribute to modifying the UK regulatory regime to take account of changes in European and UK legislation.

There is considerable continuity in these themes from the key features of our Plan & Budget for 2006/07. A number of the major activities on which we are working in 2006/07 will continue in 2007/08.

The most important activities and projects in relation to our Plan for 2007/08 are:

Outcome One – Corporate governance

- work with the DTI to implement EU requirements on audit committees and corporate governance statements.
- begin a formal review of the Combined Code on Corporate Governance.

Outcome Two – Corporate reporting

- influence the joint IASB/FASB framework to develop a conceptual framework for financial reporting
- continue to consider a strategy for the convergence of UK standards with IFRS
- conclude our research project on accounting for pensions
- review a selection of annual and interim accounts and directors' reports, including business reviews.

Outcome Three – Auditing

- continue our project on choice in the UK audit market
- consider responses to our discussion paper "Promoting Audit Quality" and respond as appropriate
- influence the IAASB project to revise and clarify ISAs

- monitor, through our Audit Inspection Unit, the quality of the audit function in relation to listed companies and other entities in whose financial condition there is a major public interest
- contribute to the implementation of the 8th Company Law (Auditing) Directive, with particular focus on the provisions relating to foreign auditors.

Outcome Four – Actuarial practice

- publish and consult on a conceptual framework for actuarial standards.

Outcome Five – Professionalism of accountants and actuaries

- monitor the regulatory activities of the professional bodies in relation to their members
- operate an independent investigation and discipline scheme to deal with misconduct.

Outcome Six – FRC effectiveness

- evaluate opportunities to improve the cost effectiveness of those parts of the regulatory system for which we are responsible
- promote co-operation between international independent audit regulators through our active participation in IFIAR.

Annex A sets out all the major activities and projects we are proposing to undertake in 2007/08.

Five – Budget for 2007/08

Our Financial Management and Reporting Framework, set out in Annex D, provides the basis for the management and reporting of the costs of our activities and how they are funded.

Summary of expenditure

	Budget 2007/08 £m	Forecast 2006/07 £m	Budget 2006/07 £m
<i>Accounting, auditing and corporate governance</i>			
Core operating costs	10.9	10.2	10.2
Audit inspection costs	2.8	2.3	2.5
Accountancy disciplinary case costs	1.0	1.0	0.5
Review Panel case costs	-	-	-
Total	14.7	13.5	13.2
<i>Actuarial standards and regulation</i>			
Core operating costs	1.8	1.4	1.3
Actuarial disciplinary case costs	-	-	-
Total	1.8	1.4	1.3
Total	16.5	14.9	14.5

The core operating costs of actuarial standards and regulation include a fair apportionment (£0.4m) of our support services and corporate costs. As a result, the core operating costs of our work on accounting, auditing and corporate governance are £0.4 m lower than they would otherwise be.

Accounting, auditing and corporate governance

Core operating costs

The budget for core operating costs for 2007/08 in relation to our responsibilities for accounting, auditing and corporate governance is £10.9m. The budget for 2007/08 represents an increase over the forecast for 2006/07 of 7%. This includes provision for additional work as a result of the international aspects of audit regulation (including the 8th Directive), the Transparency Directive and the application of the Freedom of Information Act to our Professional Oversight Board.

Analysis by category of expenditure

	Budget 2007/08 £m	Forecast 2006/07 £m	Budget 2006/07 £m
Staff costs	8.0	6.7	7.0
Accommodation costs	1.0	1.0	1.0
Professional fees	0.6	0.7	0.7
IT costs	0.5	0.6	0.5
Other costs	0.9	0.9	0.9
Contingency	0.3	0.7	0.3
	<u>11.3</u>	<u>10.6</u>	<u>10.4</u>
Sundry income	(0.5)	(0.5)	(0.3)
Capital expenditure	0.1	0.1	0.1
Total	<u><u>10.9</u></u>	<u><u>10.2</u></u>	<u><u>10.2</u></u>
Staff numbers	64	59	61

The increase in budgeted staff costs reflects the full year effects of staff increases in 2006/07, a planned increase in headcount from 61 to 64 during 2007/08, and the need to continue to offer rewards that will attract and retain staff with the skills and experience needed to ensure that our work is of high quality.

Analysis by operating unit

	Budget 2007/08 £m Staff		Forecast 2006/07 £m Staff		Budget 2006/07 £m Staff	
ASB	2.4	15	2.5	15	2.5	16
APB	1.3	7	1.2	6	1.2	7
FRRP	1.9	12	1.7	9	1.7	11
POB	1.4	7	1.3	7	1.3	7
AIDB	1.1	6	1.0	6	1.0	5
CGU	0.1	1	0.1	1	0.1	1
Support Services	1.5	11	1.3	10	1.3	9
Corporate	1.2	5	1.1	5	1.1	5
Total	<u><u>10.9</u></u>	<u><u>64</u></u>	<u><u>10.2</u></u>	<u><u>59</u></u>	<u><u>10.2</u></u>	<u><u>61</u></u>

These figures represent the core operating costs of each operating unit plus an allocation of the central overheads based on the number of full time staff in each operating unit. The proposed distribution of resources is substantially unchanged from the budget for 2006/07.

Audit inspection costs

The only other category of activities which is susceptible to normal budgetary limits is audit inspection. The budget for the AIU is £2.8 million, which is the cost of meeting the programme of independent audit inspections discussed under Supporting Outcome 3(c). The AIU is planning to operate with 19 staff in 2007/08 compared to an average of 16 in 2006/07.

Accountancy disciplinary case costs

The case costs budget includes a provisional estimate of the costs to be incurred during 2007/08 in relation to four investigations which are currently underway and which are expected to continue beyond 2006/07. These are investigations concerning matters relating to the conduct of members of the accountancy professional bodies belonging to the AIDB Disciplinary Scheme and their firms in relation to MG Rover Group, Langbar International Limited, Emerging Business Trust and iSoft Group plc.

The actual case costs incurred may vary significantly from this estimate. If the AIDB decides to investigate any other matters, this may involve additional case costs expenditure for which no allowance is made in the budget.

The levy on listed companies for 2007/08

The levy on listed companies is collected on our behalf by the FSA at the same time that it collects its own fees. This helps to reduce the costs of collection. In 2005/06, we changed the basis of our levy from flat fees to a levy based on market capitalisation. We continued to use this basis in 2006/07 and propose to calculate the levy for 2007/08 on the same basis.

We will publish a consultation paper on our levy proposals for 2007/08 in February 2007 and will finalise the levy in May. In that paper we shall consult on proposals as to how best the UK should contribute to efforts to put the funding of the IASB onto a more equitable and sustainable basis.

We will undertake a further review of the case for extending our levy to include other publicly traded companies to which our activities apply but which do not currently contribute to our costs.

Actuarial standards and regulation

Core operating costs

Core operating costs comprise the cost of BAS, the cost of the work undertaken by POB and AIDB in relation to actuarial matters, and a fair apportionment of the cost of our support services and corporate costs (£0.4m). Our 2006/07

budget for actuarial standards and regulation reflected a progressive build-up phase for our new responsibilities. We forecast to spend £0.1m more than budgeted for core operating costs in 2006/07.

We are planning to operate with 6 staff in 2007/08 compared to an average of 5 staff in 2006/07. The 2007/08 budget allows for the full year costs of the planned level of staffing in 2006/07 (an additional £0.3m) and an allowance for additional legal advice and research (£0.2m) which we judge to be essential for BAS to operate effectively. Taken together these factors increase the core operating costs for actuarial standards and regulation in 2007/08 to £1.8m.

Actuarial disciplinary case costs

The formalities relating to the extension of the scope of the AIDB's work to include actuarial costs are expected to be completed in the first half of 2007. No expenditure on cases is expected in 2006/07 and there is no reliable basis for budgeting for costs in 2007/08.

Actuarial Standards and Regulation – Funding Requirement

The amount which we need to collect in relation to our work on actuarial standards and regulation is as set out below:

	Budget 2007/08 £m	Forecast 2006/07 £m	Budget 2006/07 £m
Core operating costs	1.8	1.4	1.3
Actuarial disciplinary case costs fund	0.3	0.2	0.2
Recovery of set-up costs	0.1	0.1	0.2
	<u>2.2</u>	<u>1.7</u>	<u>1.7</u>

Actuarial disciplinary case cost fund

As set out in our Financial Management and Reporting Framework, we have established a fund to cover actuarial disciplinary case costs. We expect to raise an initial contribution of £0.2m in 2006/07, although the legal formalities relating to the extension of the AIDB's responsibilities to include actuarial cases are not likely to be completed until mid-2007. We propose to raise a further amount of £0.3m in 2007/08.

Recovery of set-up costs

We incurred set-up costs of £0.3m when we assumed responsibility for actuarial standards and regulation in 2006. We plan to continue the recovery of these costs over a three-year period ending in 2008/09.

Funding actuarial standards and regulation in 2007/08

We are implementing the proposals for funding our responsibilities for actuarial standards and regulation on the basis that we announced following consultation in June 2006. These comprise:

- A contribution from the actuarial profession equivalent to 10% of total costs.
- A levy on insurance companies in FSA fee-blocks A3 and A4, equivalent to 45% of total costs of actuarial standards and regulation, collected on behalf of the FRC by the FSA. In 2006/07 this levy was allocated to individual insurance companies in the same proportion as the FSA regulatory fees and charged to insurance companies on the same invoice as the FSA fees. We propose to calculate the levy for 2007/08 on the same basis.
- A levy on Pension Schemes, on the basis of the information provided to the Pension Regulator, equivalent to 45% of total costs of actuarial standards and regulation.

We will consult on the details of our actuarial funding proposals for 2007/08 in February 2007.

Questions on the Plan & Budget 2007/08

4. Do you have any comments on the scope or relevance of the major activities and projects included in the Plan for 2007/08?
5. Are there any additional activities or projects which should be included in the Plan for 2007/08?
6. Are there any other aspects of the Plan & Budget 2007/08 on which you wish to comment?

Annex A - Major activities and projects for 2007/08

This table sets out the major activities and projects we are proposing in 2007/08 to contribute to the outcomes we have identified in our Strategic Framework.

Those elements of the Strategic Framework where the principal responsibility rests with other agencies or market participants are indicated through shading in grey.

The table indicates, where appropriate, which of the FRC's operating bodies has lead responsibility for individual activities and projects. Where an individual operating body is not indicated, the activity or project is the responsibility of FRC as a whole.

Strategic Outcome One: Corporate governance	
Companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.	
Supporting Outcome One (a)	
The legislative and regulatory framework for corporate governance is clear, proportionate and capable of dealing with a wide variety of circumstances and of adaptation to developments in corporate practices.	
Component	Project/Activity in 2007/08
i) Legislative provisions relating to corporate governance, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.	<p>Work with DTI on implementation of the EU requirements on audit committees and corporate governance statements.</p> <p>Work with DTI on the draft Shareholder Rights Directive and any further legislation arising from the EU Company Law Action Plan.</p> <p>Share experience and best practice with bodies responsible for corporate governance codes in other countries.</p> <p>Support the Pre-Emption Group in promoting and monitoring the application of its Statement of Principles.</p>
ii) Good governance is defined by a Code of Principles outlining good practice and based on a "comply or explain" approach and kept under regular review. (FRC)	<p>Begin a formal review of the Combined Code. The effectiveness of the current arrangements intended to achieve Supporting Outcomes One (b) and (c) will be considered as part of the review.</p> <p>Encourage research into the impact of the Combined Code and of corporate governance generally.</p>

Supporting Outcome One (b)	
Boards meet the necessary high standards of performance.	
Component	Project/Activity in 2007/08
i) There is an adequate supply of skilled and experienced people willing to serve on Boards.	<i>The activities needed to achieve this Supporting Outcome are primarily the responsibility of Company boards. Shareholders have a significant secondary role in relation to the achievement of this Outcome with regard to individual companies. The FRC will keep under review the overall extent to which the Components accurately describe the behaviour of Boards.</i>
ii) Boards accept the Code as a basis for good practice and willingly seek to meet its standards in a way which is consistent with the long-term health of their companies.	
iii) Companies provide shareholders with information on their governance and performance which is relevant, understandable and balanced.	
iv) Boards accept the need to engage with shareholders in dialogue on corporate governance matters.	

Supporting Outcome One (c)	
Institutional shareholders regard good corporate governance as an essential basis for sustained good performance by companies.	
Component	Project/Activity in 2007/08
i) Institutional shareholders support shareholder-led enforcement of standards of corporate governance.	<i>The activities needed to achieve this Supporting Outcome are primarily the responsibility of institutional shareholders. The FRC will keep under review the overall extent to which the Components accurately describe the behaviour of institutional shareholders.</i>
ii) Institutional shareholders support the Code, including “comply or explain”, as the best instrument for enforcing good corporate governance in quoted companies.	
iii) Institutional shareholders appropriately engage in dialogue with boards on corporate governance matters.	

Strategic Outcome Two: Corporate Reporting

Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.

Supporting Outcome Two (a) The legislative and regulatory framework provides clarity in what is required to provide relevant, reliable, understandable and comparable reports, and underpins the importance of a true and fair view.	
Component	Project/Activity in 2007/08
i) Legislative provisions relating to corporate reporting, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.	Work within the EU to ensure appropriate European influence in the development of international standards and their adoption in the EU. (ASB)
ii) Accounting standards provide an effective framework for the preparation of financial reports, are principles-based and serve the public interest. (ASB)	Influence the IASB/FASB conceptual framework project and the convergence projects being taken forward under the Norwalk Agreement and the February 2006 Memorandum of Understanding between the IASB and FASB continue to consider the implications of the IASB/FASB conceptual framework project for public benefit entities (with Australia, Canada, and New Zealand) (ASB).
iii) The standard-setting body plays an influential role in the development of international accounting standards, and play an influential role in Europe. (ASB)	Contribute to specific IASB projects as appropriate. (ASB) Participate in EFRAG Pro-active Accounting Activities in Europe (PAAinE) projects. (ASB) Conclude research project on accounting for pensions with the issue of a discussion paper and an analysis of the responses. (ASB)
iv) The standard-setting body maintains an appropriate and high quality regime for UK accounting standards – which takes account of the size and degree of public interest in the entities to which the regime applies. (ASB)	Continue to consider a strategy for the convergence of UK standards with IFRS. (ASB) Maintain an appropriate regime for UK GAAP, including reviews of revisions to SORPs. (ASB)
v) There is guidance on the meaning of "true and fair" to guide preparers and to maintain confidence in the financial reporting regimes in place. (FRC)	Maintain appropriate guidance on what is meant by "true and fair" .
vi) There is best practice guidance to preparers on aspects of financial reporting not covered by accounting standards, such as narrative reporting. (ASB)	Maintain appropriate guidance on best practice in narrative reporting. (ASB)

Supporting Outcome Two (b)	
Preparers strive to ensure that financial statements show a true and fair view and to embrace best practice in the provision of all information in financial reports.	
Component	Project/Activity in 2007/08
<p>i) Preparers apply the principles set out in accounting standards responsibly and with integrity and in a way that reflects the underlying economic reality; and disclose and explain the key judgments made in compiling financial statements and other reports.</p>	<p><i>The activities needed to achieve this Supporting Outcome are primarily the responsibility of Company Boards.</i></p> <p><i>Outcome Three (Auditing) and Outcome Five (Professionalism of accountants and actuaries) have important secondary roles in relation to this Outcome.</i></p>
<p>ii) Directors set out a clear and balanced analysis of the development, performance, strategic position and future prospects and direction of their business that enables investors to make informed decisions, including an assessment of the stewardship of the relevant entity</p>	

Supporting Outcome Two (c)	
Financial reporting requirements are appropriately monitored and enforced.	
Component	Project/Activity in 2007/08
<p>i) There is an effective and efficient mechanism to ensure compliance with financial reporting requirements – which provides for risk-based targeting of information for review, and encourages open dialogue with companies and informed referrals from the investor community. (FRRP)</p>	<p>Review a selection of annual and interim accounts and directors' reports, applying selection criteria based on industry sectors, specific accounting requirements and company-specific trigger factors. (FRRP)</p> <p>Select accounts for review from the full range of entities within the Panel's remit but with a particular focus on the following industry sectors – travel and leisure, retail, utility, telecommunications and media. (FRRP)</p> <p>Respond to matters drawn to our attention as a result of complaints or public comment, encouraging referrals from the investment community, other professional advisers and elsewhere. (FRRP)</p> <p>Develop a process for monitoring directors' reports. (FRRP)</p> <p>Influence the development of international enforcement practices through active involvement in EECS, the Committee of European national enforcers, established under CESR. (FRRP)</p>

Strategic Outcome Three: Auditing

Users of audit reports can rely on the audit opinion as to whether financial statements show a true and fair view.

Supporting Outcome Three (a)	
The legislative and regulatory framework provides clarity on the role and purpose of audit and the standards which auditors should meet.	
Component	Project/Activity in 2007/08
i) Legislative provisions relating to auditing, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.	<p>Contribute to the implementation of the 8th European Company Law (Auditing) Directive, with a particular focus on the provisions relating to foreign auditors. In particular:</p> <ul style="list-style-type: none"> • Participate in the arrangements for the co-ordination of the regulation of the audit and the oversight of the auditing profession in the EU. • Provide advice to the European Commission on equivalence assessments of third country audit regimes. • Develop policies and procedures for maintaining a third country audit register. • The adoption of international auditing standards. (POB) <p>Follow up the 2006/07 consultation on statutory transparency reporting by auditors of public interest entities. (POB)</p>
ii) Auditing and ethical standards and guidance provide an effective framework for the expected conduct of audits, are principles-based, and serve the public interest. (APB)	<p>Develop guidance, as necessary, in relation to changes in the Companies Acts impacting the performance of audits. (APB)</p> <p>Update industry-specific auditing Practice Notes, including those on charities and investment businesses. (APB)</p>
iii) The standard-setting body plays an influential role in the development of international auditing and ethical standards and plays an influential role in Europe. (APB)	<p>Contribute to IAASB's project to revise and clarify ISAs and to work positively towards their adoption in the EU. (APB)</p> <p>Contribute to the revision of individual ISAs, including:</p> <ul style="list-style-type: none"> • the objective and general principles of audits • auditing accounting estimates (including fair values) • auditing related parties • group audits. (APB) <p>Contribute to IESBA's review of its Code of Ethics and co-ordinate this work with a review of the APB's Ethical Standards for Auditors. (APB)</p>

iv) There is guidance on the key drivers of audit quality.	Consider the responses to our discussion paper 'Promoting Audit Quality' and, if appropriate, consider what further steps might be necessary taken to maintain and enhance the quality of audits.
v) Recognised supervisory and qualifying bodies have effective regulatory systems in place to support high quality audits.	<i>The activities needed to achieve this Component are primarily the responsibility of the relevant professional accountancy bodies.</i>

Supporting Outcome Three (b) Audits are undertaken by an experienced, motivated and sceptical team within an effective firm-wide environment in audit firms and an efficient market for audit services.	
Component	Project/Activity in 2007/08
i) Audit provides a rewarding career thus attracting, developing and retaining high quality entrants for the long term stability of the profession.	<i>The activities needed to achieve this Supporting Outcome are primarily the responsibility of individual auditors and audit firms. Outcome Five (Professionalism of accountants and actuaries) contributes to this Outcome.</i>
ii) Audit firms ensure that audit teams have the capability, competence and time to detect errors, omissions or irregularities in the financial statements they are auditing - and adhere to the principles on which auditing and ethical standards and guidance are based and not just the rules.	
iii) Auditors should report appropriately to shareholders and communicate effectively with audit committees.	
iv) There is an efficient market for audit services in the UK.	Continue our project to enhance the efficiency of the market for the audit of major public interest entities in the UK and reduce the risks to the availability and quality of auditors. In particular, consider actions to: <ul style="list-style-type: none"> • increase choice of auditors • reduce risks of a firm leaving the market without good reason • reduce uncertainty and disruption costs in the event of a firm leaving the market.

Supporting Outcome Three (c)	
Auditing requirements are appropriately monitored and enforced.	
Component	Project/Activity in 2007/08
i) Audit committees know what the main drivers of audit quality are, and are pro-active and effective in undertaking their reviews of audit quality and reporting their findings.	Promote awareness amongst audit committees of the drivers of audit quality.
ii) Audit monitoring focuses on the drivers of audit quality and challenges professional judgement at both the firm-wide and engagement level. (POB)	<p>Undertake inspection visits to the 9 largest audit firms to review firm-wide procedures and specific audits, and issue recommendations to improve audit quality. (POB-AIU)</p> <p>Review a selection of audits of listed companies and other entities in which there is a major public interest undertaken by other audit firms. (POB-AIU)</p> <p>Publish a review of the findings and recommendations arising from our independent monitoring regime. (POB-AIU)</p> <p>Consider responses to the consultation on the extent of public reporting by the AIU. (POB)</p>
iii) The recognised supervisory bodies maintain appropriate arrangements for the monitoring and enforcement of compliance with their rules and for the investigation of complaints. (POB)	<p>Statutory oversight of the regulatory processes of the RSBs and RQBs through:</p> <ul style="list-style-type: none"> • documenting and understanding each body's regulatory systems • annual compliance testing of the operation of the regulatory systems • periodic evaluation of specific aspects of the regulatory system. (POB) <p>Review RSB and RQB systems and procedures for ensuring that the requirements of the Companies Act are met effectively and make recommendations to improve these systems. (POB)</p> <p>Deliver a report to the Secretary of State on the discharge of our statutory responsibilities. (POB)</p> <p>Follow up relevant recommendations from our private reports to the professional bodies on the testing of their application of their regulatory systems. (POB)</p> <p>Follow up recommendations from our published report on complaints and discipline. (POB)</p>

Strategic Outcome Four: Actuarial Practice

Users of actuarial information can rely on its relevance, transparency of assumptions, completeness and comprehensibility.

Supporting Outcome Four (a)	
The legislative and regulatory framework provides clarity on what is required to provide relevant, transparent, clear and complete actuarial information.	
Component	Project/Activity in 2007/08
i) Legislative provisions relating to actuarial practice, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.	
ii) There is a conceptual framework which sets out the principles and concepts that underlie actuarial information and gives coherence and consistency to the standards. (BAS)	Publish a paper inviting views on the key elements of a conceptual framework for actuarial standards. (BAS)
iii) Actuarial standards are developed or amended which are consistent with the conceptual framework (and best practice) and the provision of clear and complete actuarial information. (BAS)	Update current standards on specific issues where appropriate. (BAS) Develop new standards on specific issues where appropriate. (BAS)
iv) Actuarial standards fit appropriately into a framework that includes all relevant regulation (including professional, accountancy and prudential regulators) and take due account of public interest.	Consider the relationship between BAS standards and the regulatory requirements of the FSA, the DWP and the Pensions Regulator. (BAS/POB)

Supporting Outcome Four (b)	
Actuarial information is provided to a consistently high quality standard.	
Component	Project/Activity in 2007/08
i) Actuaries apply the principles set out in actuarial standards responsibly and with integrity, and in a way that reflects the economic reality.	<i>The activities needed to achieve this Supporting Outcome are primarily the responsibility of individual actuaries and actuarial firms. Outcome Five (Professionalism of actuaries) contributes to this Outcome.</i>
ii) Actuaries communicate clearly the underlying assumptions made and the inherent risks for a range of possible outcomes.	
iii) Actuaries supply relevant, reliable and comprehensible information to assist in decision-making by the principal users of actuarial advice.	

Supporting Outcome Four (c)	
There is effective scrutiny and monitoring to ensure that actuarial information is produced in accordance with the relevant technical and ethical standards.	
Component	Project/Activity in 2007/08
i) Institutional recipients and users of actuarial information know what the main drivers of quality are, and are proactive in challenging the quality of the actuarial information they receive.	<p>Publish the results of a survey of the needs of the principal users of actuarial information. (BAS/POB)</p> <p>Work with the actuarial profession and the principal users of actuarial information to develop a wider discussion on the drivers of quality in actuarial work. (BAS/POB)</p>
ii) There is a framework of effective scrutiny and monitoring which ensures that actuarial information complies with the relevant technical and ethical standards.	Working with the actuarial profession, other regulators, and the users of actuarial information, review and make recommendations for the scrutiny and monitoring of actuarial advice. (POB)

Strategic Outcome Five: Professionalism of accountants and actuaries	
Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.	
Supporting Outcome Five (a)	
There is an effective legislative and regulatory framework for the regulation of accountants and actuaries.	
Component	Project/Activity in 2007/08
i) The accountancy and actuarial professional bodies maintain appropriate requirements for membership of the accountancy and actuarial professions.	<i>The activities needed to achieve this Component are primarily the responsibility of the relevant professional accountancy and actuarial bodies.</i>
ii) There are well-understood principles and standards of practice and ethical behaviour established in the public interest for both the accounting and actuarial professions.	<i>The activities needed to achieve this Component are primarily the responsibility of the relevant professional accountancy and actuarial bodies.</i>
iii) Standards for reporting on investment circulars, and other assurance services, provide an effective framework for the work undertaken, are principles-based and serve the public interest. (APB)	
Supporting Outcome Five (b)	
Accountants and actuaries, and the firms to which they belong, meet high standards of practice and ethical behaviour and have regard to the public interest.	
Component	Project/Activity in 2007/08
i) There are adequate numbers of high quality individuals entering, and remaining in, the accountancy and actuarial professions.	<i>The activities needed to achieve this Supporting Outcome are primarily the responsibility of individual accountants and actuaries and the organisations which employ them.</i>
ii) Accountants and actuaries maintain and develop the appropriate professional competences, and respect the public interest in, and the ethical rationale for, their work.	

Supporting Outcome Five (c)

Compliance with professional and ethical standards for accountants and actuaries is appropriately monitored and enforced.

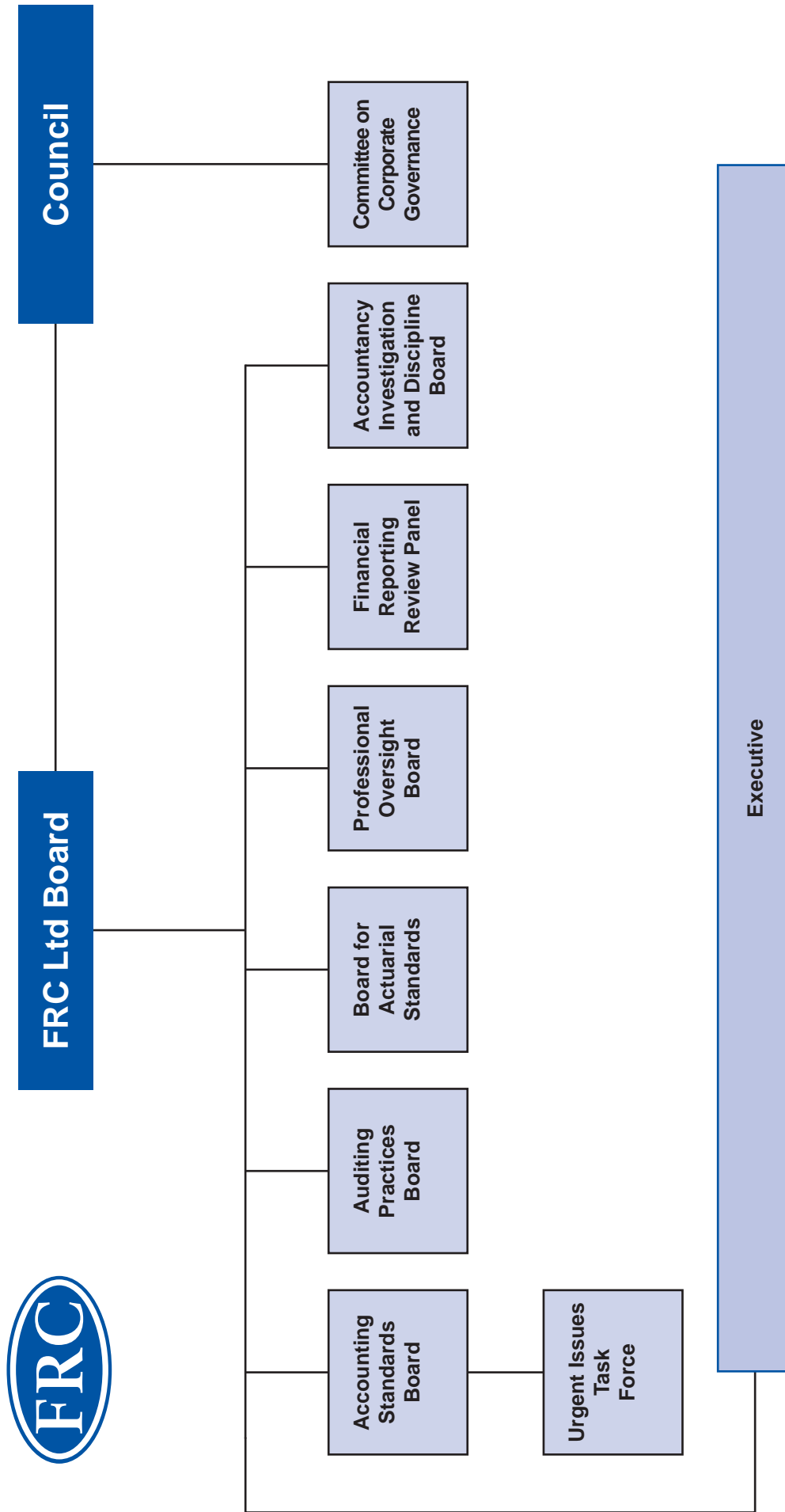
Project/Activity in 2007/08	
<p>Component</p> <p>i) The accountancy and actuarial professional bodies have effective arrangements to oversee the activities of their members and identify shortcomings in their technical performance and ethical behaviour, and have effective systems for the investigation and disciplining of such shortcomings. (POB)</p>	<p>Monitor the regulatory activities of the accountancy and actuarial professional bodies in relation to their members. (POB)</p> <p>Monitor developments, assessing those issues that could adversely affect public confidence in accountants and actuaries – and where appropriate undertake more detailed research and make recommendations to the professional bodies or recommend the development of new standards. (POB)</p> <p>Follow-up recommendations from 2006/07 projects, including:</p> <ul style="list-style-type: none"> • Training and Education in the Accountancy Profession • Complaints and Discipline Procedures Review • How accountants support the needs of SMEs. (POB) <p>Follow-up our review of the actuarial professional bodies' implementation of the recommendations of the Morris Review, including:</p> <ul style="list-style-type: none"> • their review of ethical standards and discipline arrangements • the impact of their recent training and education reforms. (POB) <p>Operate an independent investigation and discipline scheme for matters which raise or appear to raise important issues affecting the public interest:</p> <ul style="list-style-type: none"> • continue to monitor and investigate matters which raise or appear to raise important issues affecting the public interest. • substantially complete the investigations relating to the MG Rover Group, Langbar International Limited, Emerging Business Trust and iSoft Group plc. (AIDB) <p>Implement a new disciplinary scheme to deal with public interest cases in respect of the actuarial profession. (AIDB)</p>
<p>ii) There are effective arrangements in relation to public interest cases for the independent investigation of the conduct of members and member firms of the professional accountancy bodies and members of the actuarial professional bodies and, where appropriate, for disciplinary action. (AIDB)</p>	<p>Operate an independent investigation and discipline scheme for matters which raise or appear to raise important issues affecting the public interest:</p> <ul style="list-style-type: none"> • continue to monitor and investigate matters which raise or appear to raise important issues affecting the public interest. • substantially complete the investigations relating to the MG Rover Group, Langbar International Limited, Emerging Business Trust and iSoft Group plc. (AIDB) <p>Implement a new disciplinary scheme to deal with public interest cases in respect of the actuarial profession. (AIDB)</p>

Strategic Outcome Six: FRC Effectiveness	
The FRC is an effective and independent regulator, actively helping to shape UK, EU and international approaches to corporate reporting and governance.	
Supporting Outcome Six (a)	
The FRC meets the principles of good regulation, and is transparent and accountable.	
Component	Project/Activity in 2007/08
i) The FRC has in place and consistently implements policies on good regulation, including effective use of regulatory impact assessments, and having particular regard to the impact of regulation on small enterprises.	Evaluate opportunities to improve the cost effectiveness of those parts of the regulatory system for which we are responsible. Implement the recommendations arising from the AIDB Scheme Review.
ii) An Annual Report is published which demonstrates that the FRC meets the principles of good regulation and which reflects independent survey evidence.	Publish our Annual Report 2006/07. Conduct our annual survey of confidence in corporate reporting and governance.
iii) Stakeholders are provided with regular reports and other information, such as assessment of impact of activities designed to achieve the strategic outcomes in this framework.	Make available on our website up to date information on the work of the Council and the operating bodies, including summary minutes of meetings, subject to issues of necessary confidentiality. Make ourselves open to scrutiny by holding an Open Annual Meeting.
iv) An annual Plan & Budget is published which reflects timely and thorough consultation with stakeholders.	Publish our Plan & Budget 2008/09.
Supporting Outcome Six (b)	
The FRC is recognised in the UK and internationally as independent, credible, authoritative and influential.	
Component	Project/Activity in 2007/08
i) The FRC has a statutory framework in place to provide the appropriate powers and statutory immunity, and a clearly documented basis for the non-statutory elements of its responsibilities.	Participate in the project to be undertaken by the World Bank to review the United Kingdom's compliance with the international standards relating to accounting, auditing and corporate governance.
ii) The FRC demonstrates an appropriate degree of independence from government and the regulated communities.	

iii)	Effective working relationships with UK Government (including DTI, HMT and DWP), and other UK regulators (including FSA and the Pensions Regulator) are maintained.	.
iv)	The FRC effectively engages with, and influences, relevant EU and international organisations, and regulatory authorities in other jurisdictions.	Make an effective contribute to the work of the International Forum of Independent Audit Regulators. Participate in the arrangements for the coordination of the regulation of audit and the oversight of the auditing profession in the EU. Strengthen relationships with international regulatory organisations.
v)	There is a clear statement of the relevance of the FRC's work to the public sector and other public benefit entities.	Keep under review our relevance to the public sector

Supporting Outcome Six (c)		
The FRC has adequate resources and management processes and operates efficiently.		
Component	Project/Activity in 2007/08	
i)	The FRC attracts, retains and motivates the people required to meet its objectives.	Develop our people management and development processes to improve our ability to attract, retain and motivate the people required to meet our objectives.
ii)	The FRC manages information effectively and shares information as appropriate within the organisation.	Continue implementation of FRC Information Strategy, including roll-out of further Electronic Records Management and meeting preparations for the application of the Freedom of Information Act to the POB.
iii)	The FRC secures the necessary funding and manages its costs effectively.	Finalise our levy proposals for 2007/08 in the light of responses to consultation. Undertake a review of our funding arrangements.
iv)	Activities and projects in the Plan & Budget are completed in a timely and effective way and the risks to the achievement of the Strategic Outcomes in this framework are actively managed.	Improve our ability to manage effectively the risks to the achievement of our Strategic Outcomes.
v)	The FRC is resilient to disruptions to its activities.	Maintain a robust Business Continuity Plan and appropriate disaster recovery facilities.

Annex B - Organisational structure



Annex C - Operating bodies and the Committee on Corporate Governance

The **Accounting Standards Board (ASB)** contributes to confidence in corporate reporting and governance by establishing and improving standards of financial accounting and corporate reporting.

The ASB's current functions are to:

- Work with the IASB, with national standards-setters and relevant EU institutions, including the EFRAG, to encourage high quality in the IASB's standards and their adoption in the EU.
- Develop principles to guide standards and to provide a framework within which others can exercise judgement in resolving financial accounting and corporate reporting issues.
- Issue new accounting standards, or amend existing ones, in response to evolving business practices, new economic developments and deficiencies identified in current practice.
- Address urgent issues promptly through the UITF.

The **Auditing Practices Board (APB)** contributes to confidence in corporate reporting and governance by setting standards and giving guidance: for the performance of external audit and other activities undertaken by accountants that result in reports or other output that is published, required by law or otherwise relied upon in the operation of the financial markets ('assurance services'); and in relation to the independence, objectivity and integrity of external auditors and the providers of assurance services.

The APB's functions are to:

- Establish Auditing Standards which set out the basic principles and essential procedures with which external auditors in the United Kingdom and the Republic of Ireland are required to comply.
- Issue guidance on the application of Auditing Standards in particular circumstances and industries and timely guidance on new and emerging issues.
- Establish standards and related guidance for accountants providing assurance services.
- Establish Ethical Standards in relation to the independence, objectivity and integrity of external auditors and those providing assurance services.
- Take an active role in the development of statutes, regulations and accounting standards which affect the conduct of auditing and assurance services, both domestically and internationally.
- Contribute to efforts to advance public understanding of the roles and responsibilities of external auditors and the providers of assurance services, including the sponsorship of research.
- Work with the IAASB to encourage the development of high quality ISAs and their adoption in the UK.

The **Board for Actuarial Standards (BAS)** contributes to confidence in corporate reporting and governance by establishing and improving actuarial technical standards and ensuring that they are coherent, consistent and comprehensive.

The BAS's functions are to:

- Develop an appropriate conceptual framework to guide standards, including the explicit objectives and characteristics of actuarial technical standards.
- Develop a process for the development and adoption of actuarial technical standards which ensures that the objectives of the conceptual framework can be applied in practice.
- Issue new actuarial technical standards, or amend existing ones, in response to evolving commercial practices, economic developments and deficiencies identified in current practice, providing where appropriate practical guidance on the application of standards.
- Take account where appropriate of the regulatory requirements of the legislation, the Financial Services Authority and the Pensions Regulator. Liaise with the actuarial profession regarding areas of practice for which new standards may be required or existing standards should be modified or clarified.
- Consider the need for a generic standard for the communication of actuarial advice.
- Address urgent issues promptly.
- Liaise with the International Actuarial Association, other international bodies, national standard-setters and EU institutions on the development and application of international actuarial standards.

The **Professional Oversight Board (POB)** contributes to confidence in corporate reporting and governance by strengthening the independence and transparency of the regulatory regime for auditing and for the accountancy and actuarial professions.

The POB's functions are to:

- Discharge the statutory responsibilities delegated by the Secretary of State for authorising professional accountancy bodies to act as supervisory bodies and/or to offer a recognised professional qualification.
- Monitor the quality of the auditing function in relation to listed companies and any other entity in whose financial condition there is a major public interest.
- Review the regulatory activities of the professional accountancy bodies in relation to their members, including education, training, continuing professional development, standards, ethical matters (except those which are the responsibility of the APB), professional conduct and discipline, registration and monitoring, including making recommendations on how these activities might be improved

- Review the regulatory activities of the professional actuarial bodies in relation to their members, including education, training, continuing professional development, standards (except those which are the responsibility of the BAS), ethical matters, professional conduct and discipline, issue of practising certificates and monitoring, including making recommendations on how these activities might be improved.

The **Financial Reporting Review Panel (FRRP)** contributes to confidence in corporate reporting and governance by seeking to ensure that the provision by public and large private companies of financial information and other information falling within its remit complies with relevant reporting requirements.

The FRRP's functions are to:

- Carry out its formal responsibilities on behalf of the Secretary of State in relation to annual accounts and other documents, including directors' reports, falling within its remit.
- Maintain a Panel body that includes a wide and balanced representation, at the most senior level, of business people, accountants, lawyers and preparers and users of accounts such that those who come before the Panel know that they are judged by their peers within the financial reporting community.
- Develop and operate a selective programme of review of annual accounts and other documents falling within its remit which is based primarily on risk assessment.
- Enquire into specific sets of published financial statements and other documents, such as interim financial statements, falling within its remit which come to its attention.
- Ensure that findings of the Panel concerning any case considered by it are brought to the attention of relevant regulatory bodies so that they can determine whether disciplinary or other sanctions should be applied, and to co-operate with and provide information to such regulatory bodies so far as permissible.
- Liaise with the FSA and other enforcement agencies in the UK and internationally to foster consistent application of accounting requirements and generally to improve the compliance of financial information with relevant reporting requirements.
- Contribute to and seek to sustain an EU approach to enforcement that recognises the effectiveness of the UK arrangements and is vigorous, consistent and cost-effective.
- Promote knowledge, understanding and public recognition within the financial reporting community to maximise the Panel's deterrent effect.

The **Accountancy Investigation and Discipline Board (AIDB)** contributes to confidence in corporate reporting and governance by providing an independent body to investigate the conduct of members or member firms of the professional accountancy bodies and members of the actuarial professional bodies and to take disciplinary action in public interest cases - matters which raise or appear to raise important issues affecting the public interest.

The AIDB's functions are to:

- Operate an independent investigation and discipline scheme for matters which raise or appear to raise important issues affecting the public interest.
- Keep under review the working of the Scheme and the supporting Regulations to ensure that they are operating effectively.
- Ensure publicity for the Board's activities and achievements.

Agreement has been reached with the actuarial profession that the scope of the AIDB will be extended to cover public interest cases involving actuaries. The relevant formalities are expected to be completed in the first half of 2007. At that point the AIDB will be renamed to reflect its new responsibilities. On present plans it will be renamed the Accountancy and Actuarial Discipline Board.

The **Committee on Corporate Governance** leads the Council's work on corporate governance.

The Committee's terms of reference are:

- To keep under review developments in corporate governance generally, reflecting the FRC's objective of fostering high standards of corporate governance; to undertake reviews, either directly or by overseeing the work of others, and then to consider whether any actions by the FRC would be desirable; and to put proposals to the Council where appropriate.
- To monitor the operation of the Combined Code on Corporate Governance and its implementation by listed companies and shareholder.
- Where significant doubts are raised about the appropriate interpretation of part of the Code, to consider the case for issuing a clarification, and if appropriate to do so, after any suitable consultation.

Annex D - Financial Management and Reporting Framework

Our Financial Management and Reporting Framework, set out in our Regulatory Strategy, provides the framework within which we manage and report on the costs of our activities and how they are funded.

Accounting, auditing and corporate governance

The Framework identifies four categories of cost in relation to our responsibilities for accounting, auditing and corporate governance:

Core operating activities - Accounting, auditing and corporate governance

- Core operating activities (accounting, auditing and corporate governance) cover all our activities in relation to accounting, auditing and corporate governance other than audit inspection, disciplinary case and Review Panel case costs.
- The costs of the core operating activities are measured in accordance with applicable accounting standards but the amount of funds raised is adjusted for significant non-cash items, principally depreciation and capital expenditure.
- The funds are provided in equal proportions by the FRC's three sponsors: the accountancy profession (the six major professional bodies); the business community (primarily listed UK companies); and the Government. This is the "tri-partite funding arrangement".
- Our intention is to raise in each financial year the funds expected to be required for that year.

Audit inspection costs

- Audit inspection costs include only the specific and variable costs of the AIU. The AIU's fixed overheads (principally office accommodation and shared IT systems) are included in core operating costs.
- Audit inspection costs are met by the individual RSBs with which the firms that are subject to inspection are registered.
- Our intention is to raise in each financial year the costs incurred in that year.

Accountancy disciplinary case costs

- Accountancy disciplinary case costs include only the specific and variable costs of cases taken by the AIDB. The other costs of the AIDB (principally staff, accommodation, shared IT systems and other overheads) are included in core operating costs.
- Case costs are potentially volatile from year to year, depending on the number and complexity of cases and, therefore, cannot be subject to firm budgetary limits.

- Case costs are met by the individual participating bodies to which the members or firms that are the subject of each case belong. In the event of disciplinary complaints being brought, the disciplinary tribunals have powers to award costs against those found guilty of misconduct.
- Our intention is to raise in each financial year the costs incurred in that year.

Review Panel case costs

- Review Panel case costs include only the specific and variable costs of cases which the FRRP decides to take to Court or prepares to take to Court. The other costs of the FRRP (principally the staff, office accommodation and shared IT systems) are included in core operating costs.
- Case costs are potentially volatile from year to year, depending on the number and complexity of cases and, therefore, cannot be subject to firm budgetary limits. These costs are met in the first instance from the Review Panel case costs fund, which is then replenished in the following financial year under the tri-partite funding arrangement.

Actuarial standards and regulation

The Framework identifies three categories of cost in relation to our responsibilities for actuarial standards and regulation:

With the agreement of HM Treasury, these costs are met from an annual contribution from the actuarial profession (10% of total costs) and a levy on insurance companies (45%) and pension funds (45%) - the actuarial funding arrangements.

Core operating costs - Actuarial standards and regulation

- Core operating activities (Actuarial standards and regulation) cover all of our activities in relation to actuarial standards and regulation other than disciplinary case costs. They include a proportion of our overheads.
- The costs of the core operating activities are measured in accordance with applicable accounting standards but the amount of funds raised is adjusted for significant non-cash items, principally depreciation and capital expenditure.
- Our intention is to raise in each financial year the funds expected to be required for that year.

Actuarial disciplinary case costs

- Actuarial disciplinary case costs include only the specific and variable costs of actuarial cases taken by the AIDB. The other costs of the AIDB (principally staff, accommodation, shared IT systems and other overheads) are included in the two categories of core operating costs in proportion to the relative costs of accountancy and actuarial cases.

- Case costs are potentially volatile from year to year, depending on the number and complexity of cases and, therefore, cannot be subject to firm budgetary limits. We have decided to establish a fund to cover these costs.
- The level of the fund will be kept under review in the light of experience of the number and size of cases.
- The contribution that will be required to maintain the fund at an appropriate level will be reviewed each year. If in one year case costs exceed the annual contribution the additional cost will be recovered in the following year from insurance companies, pension funds and the actuarial profession in the same proportion as their contributions to the FRC's other costs in relation to the new arrangements.
- Any fine income received or legal costs awarded to the FRC in relation to disciplinary cases will be used to replenish the fund. Should the fund exceed the target level the excess will be used to meet the FRC's actuarial operating costs, thereby reducing the costs to the funding groups.

Recovery of set-up costs

- We incurred set-up costs arising from the need to establish the new arrangements. These costs were approximately £345,000, and we intend to recover them over the first three years of the operation of the new arrangements.

Annex E - Abbreviations

AIDB	Accountancy Investigation and Discipline Board
AIU	Audit Inspection Unit
APB	Auditing Practices Board
ASB	Accounting Standards Board
BAS	Board for Actuarial Standards
CGU	Corporate Governance Unit
DTI	Department of Trade and Industry
DWP	Department for Work and Pensions
EECS	European Enforcers Co-ordination Sessions
EFRAG	European Financial Reporting Advisory Group
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Council
FRRP	Financial Reporting Review Panel
FSA	Financial Services Authority
GAAP	Generally Accepted Accounting Practice
HMT	Her Majesty's Treasury
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standard
ISA	International Standard on Auditing
PAAinE	Pro-Active Accounting Activities in Europe
POB	Professional Oversight Board
RQB	Recognised Qualifying Body
RSB	Recognised Supervisory Body
SORP	Statement of Recommended Practice
UITF	Urgent Issues Task Force

Annex F - Contact details

Comments on the Draft Updated Regulatory Strategy and Plan & Budget 2007/08 should be sent to:

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