



FINANCIAL REPORTING COUNCIL

DRAFT PLAN & BUDGET 2008/09

JANUARY 2008



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One – Introduction and Executive Summary

The FRC's aim is to promote confidence in corporate reporting and governance.

Our Regulatory Strategy, updated in November 2007, explains our role, responsibilities, governance and accountability. It sets out our regulatory approach, which is based on the Better Regulation Commission's principles of good regulation. It also contains our Strategic Framework, established after consultation with our stakeholders, which defines the outcomes we believe contribute to confidence in corporate reporting and governance in the UK. This draft Plan & Budget needs to be read in the context of the Regulatory Strategy, which is available on our website at: <http://www.frc.org.uk/about>.

This draft Plan & Budget for 2008/09 invites views on:

- our new approach to explaining our priorities (section two)
- our assessment of the major risks to the achievement of the outcomes in the Strategic Framework (section three)
- the major activities and projects we are proposing to undertake in 2008/09 and our assessment of residual risks (section four)
- our proposed expenditure (section five).

Our new approach to explaining our priorities

This year we have significantly amended our approach to explaining our priorities. The amended approach is described in section two. We believe that the new approach will make it easier for our stakeholders to understand the judgements which we have made in setting out our priorities and allocating our resources. We believe that our effectiveness and accountability will be enhanced if we set out as clearly as possible the basis for those judgements - and give those with an interest in our work the opportunity to provide feedback.

Our assessment of the major risks

The draft Plan reflects our judgements about the major risks to the achievement of the outcomes in the Strategic Framework. The most significant risks are set out in section three. Our detailed assessments of the risks to the achievement of the outcomes in the Framework are set out in our document, Draft Plan 2008/09: Supplementary Information, which we have published on our website at: <http://www.frc.org.uk/about/plans.cfm>.

The recent credit market conditions mean that the risks to confidence in corporate reporting and governance are higher than they have been for some years. We believe that corporate reporting and auditing will be particularly challenging in the period covered by this draft Plan and need to be matched by increased clarity as to the basis on which the assessments included in this plan have been prepared. We believe that these increased risks will require additional diligence on the part of preparers of accounts, members of audit committees and auditors. Issues that will need to be addressed include the disclosures relating to financing arrangements and uncertainties in the light of credit

market conditions at the time of approval of financial statements, and auditors' assessments of fair values and going concern.

By April 2008, when we will finalise our Plan for 2008/09, we should be better placed to assess the impact of credit market conditions on confidence in corporate reporting and governance, but we believe that it is appropriate to highlight in this draft Plan the risks that may arise.

However at this stage, in our view, our overall Aim – confidence in corporate reporting and governance in the UK - is *largely achieved* at present. This is primarily because we believe that the Strategic Outcomes in our Strategic Framework are being *largely achieved*, with the exception of Outcome Four (Actuarial practice) where we have *significant concerns*.

Despite this positive assessment, we do not believe that there is any room for complacency in relation to our overall Aim. We have identified a number of major risks to the achievement of the Strategic Outcomes and related Supporting Outcomes defined in our Strategic Framework, in particular, we believe that if the identified risks materialise there are potentially *serious shortcomings* in the achievement of the outcomes in the Strategic Framework in relation to:

- the high degree of concentration in the UK audit market
- the need to reform the present set of actuarial standards within the context of the planned conceptual framework and address the needs of the users of actuarial information.

We will also remain alert to other developments which could require us to alter our priorities throughout 2008/09.

Our major activities and projects and assessment of residual risks

The major activities and projects we have included in the draft Plan are intended to make a targeted and proportionate contribution to addressing the major risks to the achievement of the outcomes in the Strategic Framework. Our priorities reflect our wide range of functions and responsibilities. These include functions which are supported by statutory powers or by statutory obligations on other parties to meet our requirements and/or participate in arrangements which we provide; and functions which derive their authority from widespread support from, and voluntary agreements with, our stakeholders. The most important activities and projects are set out in section four and all our major activities and projects are set out in our document, Draft Plan 2008/09: Supplementary Information, which is available on our website: <http://www.frc.org.uk/about/plans.cfm>.

The proposed key themes of our work in 2008/09 are a continuation of those we pursued in 2007/08. We will:

- Lead public debate in the UK on the major issues affecting future 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 high quality international standards and our cooperation with international regulatory organisations.
- Contribute to modifying the UK regulatory regime to take account of changes in EU and UK legislation.

A number of our proposed activities and projects represent the continuation of existing initiatives. We will continue to be significantly engaged in influencing EU and global regulatory developments of importance to our stakeholders.

In our judgement, the completion of the activities and projects set out in this draft Plan, together with the activities of market participants and other authorities will contribute to the achievement of the outcomes and other elements in the Strategic Framework.

However, successful completion by the FRC of our planned activities and projects will not guarantee the full achievement of the outcomes in the Strategic Framework. In particular, even after the completion of the activities and projects set out in our draft Plan, together with the activities of market participants and other authorities, we believe that there could continue to be *significant concerns* over the medium to long term arising from the high degree of concentration in the market for audit services in the UK.

Our proposed expenditure

Our proposed expenditure is set out in section five. We remain committed to providing value for money whilst remaining effective in dealing with our growing list of responsibilities and current issues. These additional responsibilities have resulted in upward pressures on our costs.

Issues with significant implications for the UK regulatory regime for corporate governance, reporting and auditing are at an important stage in the EU and globally, requiring an increase in our resources. In relation to actuarial regulation, we need both to finalise the conceptual framework for actuarial standards and update individual standards to meet the needs of our stakeholders.

Our proposed Budget will result in an increase of 9% in our core operating costs in relation to corporate governance, reporting and accounting to £11.9m compared to £10.9m in 2007/08, and an increase of 22% (from a small base) in core operating costs for actuarial standards and regulation to £2.2m compared to £1.8m in 2007/08.

We will consult on the details of our funding proposals for 2008/09 in February 2008.

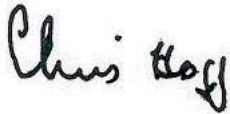
Providing feedback on the Draft Plan & Budget 2008/09

We would welcome feedback from interested parties, by 14 March 2008, on this Draft Plan & Budget

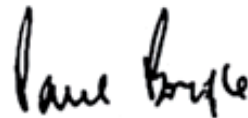
and the document Draft Plan 2008/09: Supplementary Information we have published on our website. Annex B lists the supporting material available on our website.

This document sets out a number of questions in which we are particularly interested. We look forward to the views of those with an interest in corporate reporting and governance on the appropriateness of our judgements. Contact details are provided in Annex D.

We will take careful account of the views of stakeholders and other interested parties and will publish our final Plan & Budget 2008/09 and Supplementary Information in April 2008, together with a summary of the feedback we have received.



Sir Christopher Hogg
Chairman



Paul Boyle
Chief Executive

Two – Our new approach to explaining our priorities

This year we have significantly amended our approach to explaining our priorities. We believe that the new approach will make it easier for our stakeholders to understand the judgements which we have made in setting out our priorities and allocating our resources. We believe that our effectiveness and accountability will be enhanced if we set out as clearly as possible the basis for those judgements - and give those with an interest in our work the opportunity to provide feedback.

The FRC's resources are very modest in relation to the number and complexity of the issues with which we are concerned, and to the scale of the activities which come within our remit. It is, therefore, essential for us to have a basis for prioritising our work; a basis which takes into account our commitment to follow a risk-based and proportionate approach.

We believe that we can most effectively achieve this if we give those with an interest in corporate reporting and governance the opportunity to comment on the judgements we have made in preparing our draft Plan. We believe that this will help us to:

- explain the rationale for our selection of the major activities and projects we propose to include in the draft Plan
- highlight those aspects of confidence in corporate reporting and governance which we believe require particular attention
- explain the basis on which we are seeking to influence market participants and other authorities at UK, EU and global level
- obtain helpful feedback from those with an interest in corporate reporting and governance on the judgements we have made in preparing the draft Plan.

Our Strategic Framework

We have based our approach to prioritisation on our Strategic Framework, shown at Annex A, which consists of a hierarchy 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 Strategic Outcomes are:

- **Outcome One – Corporate governance**
UK 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 place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view.
- **Outcome Four – Actuarial practice**
Users of actuarial information can place a high degree of reliance on its relevance, 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, accountable and independent regulator, actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.

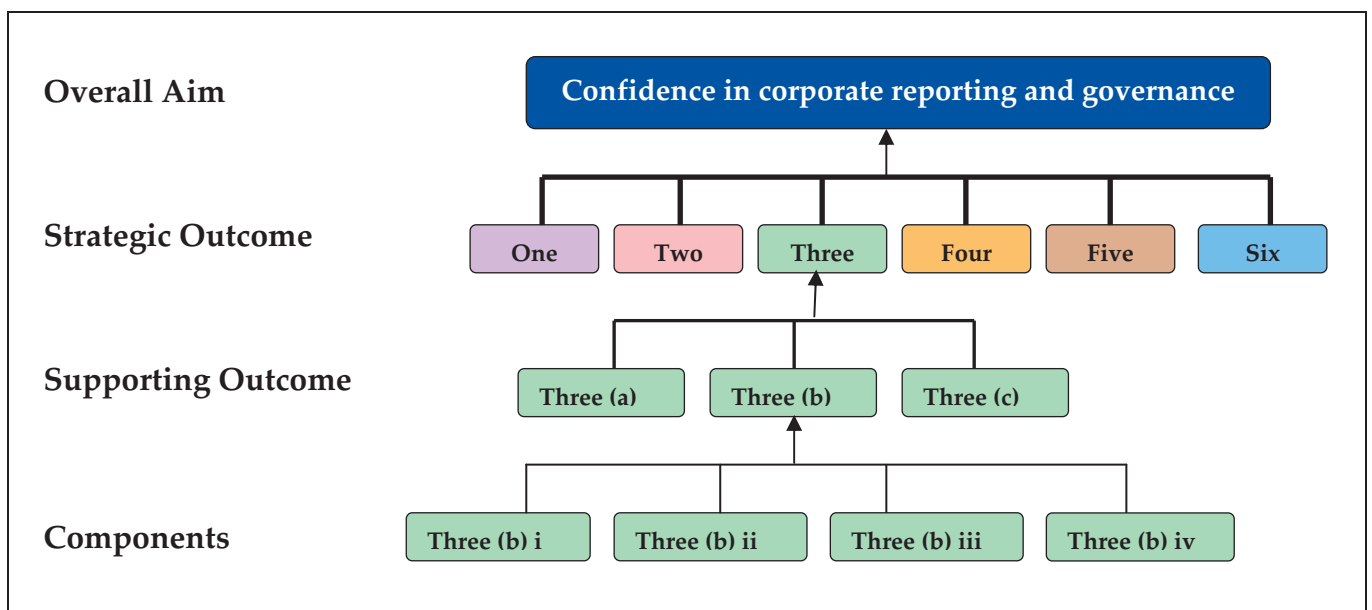
The Strategic Outcomes are, to a significant degree, mutually supporting in that achievement in relation to one of the outcomes can contribute to achievement in relation to one or more of the others. It is not essential that all of these elements are found in practice in every case. However, we believe that the greater the extent to which these elements are found, the greater will be the overall level of confidence in corporate reporting and governance.

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

- (a) The importance of a **proportionate and effective legislative and regulatory framework** that defines high standards in corporate governance and reporting - including standards and guidance on best practice set by Government, the FRC, other regulatory authorities and the professional bodies.
- (b) The **central implementation role of practitioners** i.e. those directly responsible for governance and the preparation of reports, audits, actuarial and other relevant professional advice in meeting the high standards defined. The term “practitioners” includes boards, auditors, members of the accountancy and actuarial professions and the firms to which they belong.
- (c) The importance of **effective monitoring** of the quality and integrity of reporting and governance by, for example, shareholders, audit committees, the regulatory authorities (including the FRC) and the professional bodies; and, where appropriate, arrangements for **enforcing** legislative and regulatory requirements.

Strategic Outcome Six relating to our effectiveness also has three Supporting Outcomes: we should meet the principles of good regulation and be accountable; actively shape UK, and influence EU and global, approaches to corporate reporting and governance; and have adequate resources to operate effectively.

Each Supporting Outcome in the Strategic Framework is sub-divided into Components which describe, at a more operational level of detail, those elements which we believe should be in place to underpin the achievement of the Supporting Outcome. The following diagram explains this hierarchical structure:



Note: This illustrates the hierarchical structure for Strategic Outcome Three. There is a similar hierarchical structure for all of the Strategic Outcomes.

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

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.

Assessing the achievement of the outcomes defined in the Strategic Framework

This section summarises our approach to making our assessments of the achievement of the outcomes defined in our Strategic Framework. The diagram on the opposite page summarises this approach.

Our approach involves us making assessments using our regulatory professional judgement, of three scenarios in relation to each of the outcomes defined in the Strategic Framework:

Present: This is an assessment of the extent to which the outcome is achieved at present (January 2008 for the purposes of the draft Plan for 2008/09).

Downside: This is an assessment of the extent to which the outcome may not be achieved in two/three years, or sooner if we believe circumstances could change materially, because those responsible do not take effective action to promote the achievement of the outcome or do not adequately mitigate the risks that are likely to arise. It is not intended to represent a “worst case” scenario but rather a realistic assessment of the position should the plausible risks materialise.

Upside: This is an assessment of the extent to which the outcome is likely to be achieved in two/three years, or sooner if we believe circumstances could change materially, if those responsible take effective action to promote its achievement and adequately mitigate the risks that are most likely to arise. It is not intended to represent a “best case” scenario but rather an assessment of the realistic prospects – and takes into account our belief that no system of regulation can ever eliminate the possibility of failures.

The differences between the **Present**, **Downside** and **Upside** scenarios are primarily attributable to the level and effectiveness of action taken primarily by those responsible for the achievement of the outcome in the Strategic Framework (including, but not limited to, the FRC). The differences will also be attributable in part to the extent that the FRC can successfully influence those responsible for the achievement of the outcome in the Strategic Framework to take action.

We will keep our assessments under review in response to external developments and as further evidence becomes available.

For each scenario we apply our regulatory judgement to assess whether:

- each outcome is *largely achieved* or achieved to a considerable degree
- there are *significant concerns* in relation to the achievement of each outcome
- there are *serious shortcomings* in relation to the achievement of each outcome.

The assessments reflect our judgements about the severity of the risk which might materialise and the likelihood that they might materialise.

Our approach to making our assessments

Our approach has two dimensions: the **Scenarios** (Present, Downside and Upside) and the **Assessments**.

Scenarios

Present - To what extent is the outcome being achieved now?

Based on the evidence available to FRC.

Downside - To what extent is the outcome likely to be achieved if the plausible risks materialise?

Not a “worst case” scenario but a realistic assessment of what could go wrong in two/three years, or sooner if we believe circumstances could change materially.

Assumes those responsible do not take effective action to promote the achievement of the outcome or do not adequately mitigate the risks that are likely to arise.

Upside - To what extent is the outcome likely to be achieved?

Not a “best case” scenario but a realistic assessment of the prospects in two/three years, or sooner if we believe circumstance could change materially. Assumes those responsible for the outcome endeavour to take effective action to promote its achievement and adequately mitigate the risks that are most likely to arise.

Assessments

**Largely
achieved**

**Significant
concerns**

**Serious
shortcomings**

We draw on a range of evidence in preparing our assessments, primarily:

- the evidence we have obtained from our monitoring and enforcement activities
- responses to consultations we have undertaken on specific issues
- surveys and research conducted independently by other organisations
- surveys commissioned by the FRC, including the annual survey of confidence in corporate reporting and governance in the UK conducted on our behalf by Ipsos MORI and summarised in our Annual Report.

We publish detailed reports on our monitoring activities, together with other reports which have provided additional information which has informed our assessments. These reports are available on our website.

We believe that it is the responsibility of the FRC and others with responsibility for key aspects of corporate reporting and governance to take appropriate action to contribute to progress towards the **Upside** scenario and avoid the **Downside** scenario.

Successful completion by the FRC of its proposed work programme will not guarantee the full achievement of the outcomes in the Strategic Framework. We may conclude that the residual risks are such that even in the upside scenarios there are *significant concerns* or *serious shortcomings* as to the achievement of the outcomes.

In sections three and four we set out how we have implemented this new approach in setting our proposed priorities for 2008/09.

Consultation questions

1. Will the approach we have developed provide a clearer view of the judgements we have made and be helpful in obtaining better feedback on our assessments?
2. Will the publication of our assessments be helpful in highlighting the priority areas for action to contribute to the achievement of the outcomes defined in the Strategic Framework?

Three – Our assessment of the major risks

This section summarises our assessment of the **present** achievement of the outcomes in the Strategic Framework. It also summarises our assessment of the extent to which the outcomes in the Framework will be achieved if the plausible risks which we have identified were to materialise (the **downside** scenario). For those with a particular interest in our work, our detailed assessments in relation to each element of the Strategic Framework are set out in our document, Draft Plan 2008/09: Supplementary Information published on our website at <http://www.frc.org.uk/about/plans.cfm>.

The recent credit market conditions mean that the risks to confidence in corporate reporting and governance are higher than they have been for some years. We believe that corporate reporting and auditing will be particularly challenging in the period covered by this draft Plan and need to be matched by increased clarity as to the basis on which the assessment included in this plan have been prepared. We believe that these increased risks will require additional diligence on the part of preparers of accounts, members of audit committees and auditors. Issues that will need to be addressed include the disclosures relating to financing arrangements and uncertainties in the light of credit market conditions at the time of approval of financial statements, and auditors' assessments of fair values and going concern. We believe that the major implications are likely to be for Strategic Outcomes Two (Corporate reporting) and Three (Auditing) but, given the pervasive nature of the risks, they may also be relevant to other outcomes.

By April 2008, when we will finalise our Plan for 2008/09, we should be better placed to assess the impact of credit market conditions on confidence in corporate reporting and governance, but we believe that it is appropriate to highlight in this draft Plan the risks that may arise.

However at this stage, in our view, our overall Aim – confidence in corporate reporting and governance in the UK - is *largely achieved* at present. This is primarily because we believe that the Strategic Outcomes in our Strategic Framework are being *largely achieved*, with the exception of Outcome Four (Actuarial practice) where we have *significant concerns*.

Despite this positive assessment, we do not believe that there is any room for complacency in relation to our overall Aim. The continuing achievement of confidence in corporate reporting and governance in the UK requires a commitment on the part of the FRC and other authorities to continue to provide a regulatory framework that defines high standards in corporate governance and reporting, a commitment by those responsible for governance and the preparation of reports, audits, actuarial and other professional advice to implement those high standards, and effective monitoring and enforcement where appropriate.

We have identified a number of major risks to the achievement of the Strategic Outcomes and related Supporting Outcomes defined in our Strategic Framework, which are set out in the remainder of this section. The cumulative impact of these risks materialising could, if they are not adequately addressed by those responsible for the outcomes, lead to *significant concerns* to the achievement of our overall Aim – confidence in corporate reporting and governance (the **downside** scenario).

The Supporting Outcomes for which we assess there to be *significant concerns* or *serious shortcomings* for either the **present** or **downside** scenarios are shown below, together with the major risks which have led us to this view. We will also remain alert to other developments which could require us to alter our priorities throughout 2008/09.

Outcome One – Corporate governance

(b) Implementation – Boards meet the necessary high standards of performance

Our 2007 Review of the impact of the Combined Code on Corporate Governance identified the need for continuing improvements in the overall quality of disclosures by companies. If the present trend towards improved disclosures does not continue, the perceived effectiveness of the present arrangements could be reduced. If this risk materialises we would have *significant concerns* about the achievement of this Supporting Outcome.

(c) Monitoring and enforcement – Institutional shareholders regard good corporate governance as an essential basis for sustained good performance by companies

Shareholders may adopt a “box-ticking” approach to assessing governance statements which, over time, could reduce the effectiveness of the “comply or explain” approach. If this risk materialises we would have *significant concerns* about the achievement of this Supporting Outcome.

Outcome Two – Corporate reporting

(a) Legislative and regulatory framework – 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

We would have *significant concerns* about the achievement of this Supporting Outcome if the following risks were to materialise:

- Regulatory requirements (including those relating to financial statements and accompanying narrative) may contribute to the provision of information in a form that is overly-complex and not sufficiently relevant for users.
- IFRS may develop in ways that do not contribute to their usefulness for preparers and users of accounts.
- IFRS may be adopted by the EU or other national jurisdictions in ways that limit their value in providing a consistent international reporting framework.
- The framework of UK accounting standards – taking account of relevant EU requirements – may impose inappropriate burdens on UK companies, particularly in relation to smaller entities.

(b) Implementation – Directors 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

Recent credit market conditions mean that the risks to confidence in corporate reporting are higher than they have been for some years. There is a risk, which might materialise in a relatively short time-frame, that corporate reports may not contain adequate disclosures relating to financial arrangements and uncertainties in the light of credit market conditions at the time of approval of financial statements. If this risk materialises we would have *significant concerns* about the achievement of this Supporting Outcome.

Outcome Three – Auditing

(a) Legislative and regulatory framework – The legislative and regulatory framework provides clarity on the role and purpose of audit and the standards which auditors should meet

We have some concerns regarding the implementation measures for the EU Directive on Statutory Audit relating to foreign auditors; in particular, there is a risk that the provisions relating to foreign auditors might be difficult to apply effectively.

Existing UK auditing standards are aligned with International Standards on Auditing (ISAs) but ISAs are being revised. There is a risk that ISAs develop in ways which are not principles-based and do not promote the importance of professional judgement. If these risks materialise we would have *significant concerns* about the achievement of this Supporting Outcome.

(b) Implementation – 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

We have *significant concerns* about the achievement of this Supporting Outcome which arise from the current high level of concentration in the audit market which would result in significant uncertainty and cost in the event of one or more of the Big Four firms leaving the market. This risk is relevant to the Component - There is an efficient market for audit services in the UK.

The risks relating to auditor concentration are likely to continue for the medium term and there could be developments in the market for audit services in the UK which could further reduce its efficiency. If these risks materialise there would be *serious shortcomings* in relation to the achievement of this Supporting Outcome as it relates to the efficiency of the market for audit services.

In addition there is a risk, which might materialise in a relatively short time frame, that auditors may not adequately address the risks arising from credit market conditions. Recent credit market conditions mean that the risks to auditing are higher than they have been for some years.

Outcome Four – Actuarial practice

(a) Legislative and regulatory framework – The legislative and regulatory framework provides clarity on what is required to provide relevant, transparent, clear and complete actuarial information

The Morris Review of the Actuarial Profession recommended significant reforms to actuarial standards and regulation. HM Treasury asked the FRC to take on the role of setting actuarial standards and overseeing the regulatory activities of the actuarial profession. We are currently in the process of developing a conceptual framework and planning the reform of actuarial standards; therefore until adequate progress has been made, there will continue to be *significant concerns* about the achievement of this Supporting Outcome.

The actuarial standards will be reformed within the context of the planned conceptual framework. While the conceptual framework is being developed, there may be a failure to reform standards in key areas in ways which reflect the changing legislative and regulatory environment. If this risk materialises it would represent a *serious shortcoming* in relation to the achievement of this outcome.

(b) Implementation – Actuarial information is provided to a consistently high quality standard

In July 2007, the FRC's Actuarial Stakeholder Group published the results of a survey of the needs of principal users of actuarial services. Some respondents identified communication as a weakness in actuarial practice. The Morris Review identified significant concerns about the degree to which actuarial information is provided in a form which is sufficiently comprehensible to meet the needs of users. In the absence of a conceptual framework or individual standards which incorporate specific reporting mechanisms to strengthen the clarity of communication, there will continue to be *significant concerns* that actuarial information may not be communicated sufficiently clearly to users.

(c) Monitoring and enforcement – There is effective scrutiny and monitoring to ensure that actuarial information is produced in accordance with the relevant technical and ethical standards

The Morris Review identified a number of shortcomings in the previous arrangements for scrutinising the quality of actuarial advice. The FRC is currently working with other bodies to assess the adequacy of the arrangements; however, until this review is complete, there will continue to be *significant concerns* about the achievement of this Supporting Outcome.

Outcome Five – Professionalism of accountants and actuaries

(a) Legislative and regulatory framework – There is an effective legislative and regulatory framework for the regulation of accountants and actuaries

Failure by the professional bodies to address issues identified by the POB could, over time, reduce the effectiveness of the regulatory arrangements for promoting the professionalism of their members. If this risk materialises we would have *significant concerns* about the achievement of this Supporting Outcome.

(b) Implementation – Accountants and actuaries, and the firms to which they belong, meet high standard of practice and ethical behaviour, and have regard to the public interest

There may be a failure to recruit and retain sufficient numbers of high quality individuals to the accountancy profession, with consequent risks to the achievement of other outcomes, including Outcomes Two (Corporate reporting) and Three (Auditing).

There may be a failure to recruit and retain sufficient numbers of high quality individuals to the actuarial profession, with consequent risks to the achievement of other outcomes, including Outcome Four (Actuarial practice).

If these risks materialise we would have *significant concerns* about the achievement of this Supporting Outcome.

(c) Monitoring and enforcement – Compliance with professional and ethical standards for accountants and actuaries is appropriately monitored and controlled

The independent arrangements in relation to public interest cases may be subject to legal challenge and the risk of adverse cost awards if disciplinary complaints are not upheld by a tribunal. If the proposed changes to the disciplinary scheme are not implemented, we would have *significant concerns* about the achievement of this Supporting Outcome.

Outcome Six – FRC Effectiveness

(a) Accountability – The FRC meets the principles of good regulation, and is transparent and accountable

There is a risk that aspects of the current regulatory regime for corporate reporting and governance for which the FRC is responsible impose disproportionate costs on regulated entities. If this risk materialises we would have *significant concerns* about the achievement of this Supporting Outcome.

(c) Adequate resources – The FRC has adequate resources and management processes and operates efficiently

Our non-statutory funding arrangements may need to be reviewed if the current arrangements to collect our funds were to become ineffective. If this risk materialises we would have *significant concerns* about the achievement of this Supporting Outcome.

Consultation questions

3. Do you agree that our assessment of the achievement of the outcomes in our Strategic Framework, in the downside scenario, properly reflects the plausible risks?
4. Do you have any comments on the detailed assessments of the risks to the achievement of the outcomes in our Strategic Framework included in our document Draft Plan 2008/09: Supplementary Information published on our website? Is there additional evidence which should be considered in relation to these assessments?
5. Are there any other outcomes in our Strategic Framework where you believe there are significant concerns or serious shortcomings in the downside scenario which we have not identified? Please explain the risks which have led you to believe this.

Four – Proposed major activities and projects and assessment of residual risks

This section summarises the proposed major activities and projects in 2008/09 which have been selected based on our judgements which have been informed by the assessments in section three. This section also summarises our assessment of the extent to which the residual risks are such that the elements in the Strategic Framework are likely not to be achieved even if those responsible endeavour to take the actions necessary to promote the achievement of the outcomes in the Strategic Framework (the **upside** scenario).

The activities and projects we have selected for inclusion in the Plan for 2008/09 are intended to contribute towards the outcomes in the Strategic Framework. Taken as a whole, the Plan is intended to be a carefully targeted and proportionate contribution to the achievement of the Supporting Outcomes defined in the Framework and, therefore, to the achievement of our Strategic Outcomes and overall Aim – confidence in corporate reporting and governance.

Our priorities reflect our wide range of functions and responsibilities. These include functions which are supported by statutory powers or by statutory obligations on other parties to meet our requirements and/or participate in arrangements which we provide; and functions which derive their authority from widespread support from, and voluntary agreements with, our stakeholders.

A number of our proposed activities and projects represent the continuation of existing initiatives. We will continue to be significantly engaged in influencing EU and global regulatory developments of importance to our stakeholders.

Key themes of our work

The proposed key themes of our work in 2008/09 are a continuation of those we pursued in 2007/08. We will:

- Lead public debate in the UK on the major issues affecting future 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 high quality international standards and cooperation with international regulatory organisations.
- Contribute to modifying the UK regulatory regime to take account of changes in EU and UK legislation.

Our draft work programme

The major activities and projects we propose to undertake in 2008/09 are set out below. For those with a particular interest in our work our document Draft Plan 2008/09: Supplementary Information, published on our website at <http://www.frc.org.uk/about/plans.cfm>, contains a more detailed list of the activities and projects we propose to undertake in 2008/09.

Outcome One – Corporate governance

Following the 2007 Review of the impact of the Combined Code, we are not proposing to undertake any major activities or projects in relation to this outcome in 2008/09; however, we will continue to monitor and keep under review the activities needed to achieve this Strategic Outcome which are primarily the responsibility of company Boards and shareholders.

Outcome Two – Corporate reporting

Review a selection of annual and interim accounts and directors' reports - Supporting Outcome 2 (c)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to corporate reporting by assessing compliance with legal and accounting requirements - with the objective of improving the quality of financial reporting, selecting accounts for review on the basis of both a risk-based programme and in response to referrals.

During 2008/09, the FRRP plans to focus on the following sectors – banking, retail, travel and leisure, commercial property and house builders. The FRRP will pay particular attention to disclosures relating to financing arrangements and risks and uncertainties in the light of credit market conditions at the time of approval of financial statements.

Review the complexity and relevance of current reporting requirements – Supporting Outcome 2 (a)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to corporate reporting by considering whether corporate reporting requirements are disproportionate to their intended benefits and whether there are opportunities to improve them. It will address the risk that corporate reporting requirements, and related influential guidance, are contributing to the increasing complexity of corporate reports without making them more useful or understandable. The scope of the project includes requirements relating to financial statements, accompanying management commentary and other reports.

Influence the development and adoption of IFRS – Supporting Outcome 2 (a)

This project (which is part of a continuing commitment to influence the overall direction of IFRS and individual standards) is intended to contribute to the outcomes in the Strategic Framework in relation to corporate reporting by contributing to the continuing work to develop globally accepted accounting standards. The aim is to encourage the development and adoption of standards which are principles-based and bring benefits to both providers and users of capital without imposing excessive costs or inhibiting the responsiveness of accounting standards to new circumstances.

Update the strategy for the convergence of UK standards with IFRS – Supporting Outcome 2 (a)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to corporate reporting by helping to determine the appropriate degree of convergence between UK

reporting standards and international standards, taking into account both the potential benefits and costs of convergence to UK preparers and users; and by helping to determine the future shape of the UK accounting regime, taking into account the size and degree of public interest in the entities to which it applies.

Outcome Three – Auditing

Monitor the implementation of the recommendations made by the Market Participants’ Group on choice in the audit market – Supporting Outcome 3 (b)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to auditing by monitoring the implementation of recommendations of the Market Participants Group, which aim to enhance the efficiency of the audit markets and to mitigate the risks associated with a firm leaving the market. The recommendations set out actions that could be taken by market participants working collectively, some of which require support from regulators, to allow the market to work more efficiently. It should have a positive impact on the degree of concentration in the supply of audit services, reduce the risk of a firm leaving the market without good reason and contribute to mitigating the uncertainty and disruption costs in the event of a firm leaving the market.

Monitor the quality of auditing – Supporting Outcome 3 (c)

This activity is intended to contribute to the outcomes in the Strategic Framework in relation to auditing by monitoring the quality of audits of listed and other major public interest entities through a programme of inspections designed to assess both compliance with the requirements of UK regulation and the quality of audit judgements. The monitoring will pay particular attention to the way in which auditors have dealt with the risks arising from credit market conditions.

Implement the provisions of the EU Directive on Statutory Audit – Supporting Outcome 3 (a)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to auditing by implementing policies and procedures which will enable the UK to comply with the provisions of the EU Directive on Statutory Audit relating to foreign auditors. The implementation of these provisions will be heavily influenced by decisions made by the EU.

Contribute to the IAASB work to improve ISAs and work towards their adoption in the EU – Supporting Outcome 3 (a)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to auditing by encouraging improvements to ISAs which support a principles-based approach and avoid overly prescriptive requirements which might undermine the importance of professional judgement.

Outcome Four – Actuarial practice

Finalise the conceptual framework for actuarial standards – Supporting Outcome 4 (a)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to actuarial practice, following the consultation undertaken in 2007/08, by publishing a principles-based conceptual framework that will contribute to the relevance, transparency of assumptions, completeness and comprehensibility of actuarial information and advice.

Update actuarial standards – Supporting Outcome 4 (a)

This project (which will, in practice, comprise a number of projects on individual standards) is intended to contribute to the outcomes in the Strategic Framework in relation to actuarial practice by ensuring that key actuarial technical standards are updated in response to the needs of actuaries and of the users of actuarial information within the principles established in the conceptual framework.

During 2008/09, we will implement a plan for the transition from existing standards to a new structure; review existing standards; and develop new standards on the treatment of mortality in actuarial information and on information to be included in actuarial reports.

Outcome Five – Professionalism of accountants and actuaries

Ensure that the independent investigation and discipline scheme remains effective – Supporting Outcome 5 (c)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to professionalism by implementing as appropriate any agreed changes to the independent disciplinary arrangements to deal with public interest cases involving accountants or accountancy firms, or actuaries, designed to ensure that the arrangements remain effective.

Outcome Six – FRC Effectiveness

Implement agreed projects to improve the cost-effectiveness of our regulation – Supporting Outcome 6 (a)

This project is intended to contribute to the outcomes in the Strategic Framework in relation to FRC effectiveness by implementing, as appropriate, agreed actions to reduce the costs incurred by regulated entities without compromising the achievement of high standards of reporting and governance.

Contribute to the work of IFIAR – Supporting Outcome 6 (b)

This activity is intended to contribute to the outcome in the Strategic Framework in relation to the FRC's engagement with, and influence on, global organisations and regulatory authorities in other major jurisdictions.

Consultation questions

6. Do you have any comments on the scope and relevance of the proposed major activities and projects included in the draft Plan for 2008/09?
7. Do you have any comments on the more detailed list of activities and projects set out in the document Draft Plan 2008/09: Supplementary Information which we have published on our website?
8. Are there any additional activities or projects which should be included in the Plan for 2008/09 or for future years?

Our assessment of the residual risks

In our judgement, the completion of the activities and projects set out in this draft Plan, together with the activities of market participants and other authorities will make an effective and proportionate contribution to the achievement of the outcomes and other elements in the Strategic Framework. That judgement reflects the evidence which is available to us at present. We will remain alert to developments which could require us to modify our priorities, notably in relation to the implications of the current credit market conditions.

However, successful completion by the FRC of its proposed work programme will not guarantee the full achievement of the outcomes in the Strategic Framework. We have set out below our assessment of the extent to which the residual risks are such that the elements in the Strategic Framework are likely not to be achieved even if those responsible endeavour to take the actions necessary to promote the achievement of the outcomes in the Strategic Framework (the **upside** scenario). For those with a particular interest in our work, detailed assessments of the **upside** scenarios in relation to each element of the Strategic Framework are set out in our document Draft Plan 2008/09: Supplementary Information, published on our website at <http://www.frc.org.uk/about/plans.cfm>.

There is one Supporting Outcome in relation to which we have *significant concerns* even in the **upside** scenario:

Outcome Three – Auditing

(b) Implementation - 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

The implementation of the Market Participants' Group recommendations should contribute to progress in reducing the risks arising from the high level of concentration in the audit market, but only slowly. We believe, therefore, that there will remain *significant concerns* about the extent to which this Supporting Outcome is achieved as it relates to the efficiency of the market for audit services.

Consultation question

9. Do you agree with our assessment that there are significant concerns even in the upside scenario about the achievement of the outcome defined in the Strategic Framework in relation to an efficient market for audit services in the UK?
10. Do you have comments on the detailed assessments of the upside scenarios set out in our document Draft Plan 2008/09: Supplementary Information?
11. Are there any other outcomes in our Strategic Framework where you believe there are significant concerns or serious shortcomings in relation to the upside scenario which we have not identified?

Five – Expenditure

Our Financial Management and Reporting Framework (Annex D to our Regulatory Strategy) provides the framework within which we manage and report on the costs of our activities and how they are funded. While we endeavour to secure value for money in all our expenditure, we believe that the cost of our core operating activities is the best indicator of our effectiveness in managing our costs.

Summary of Expenditure

| | Draft Budget 2008/09 £m | Forecast 2007/08 £m | Budget 2007/08 £m |
|--|--|------------------------------------|----------------------------------|
| <i>Accounting, auditing and corporate governance</i> | | | |
| Core operating costs | 11.9 | 10.9 | 10.9 |
| Audit inspection costs | 2.7 | 2.2 | 2.8 |
| Accountancy disciplinary case costs | 1.5 | 1.4 | 1.0 |
| Review Panel case costs | - | - | - |
| Total | <u>16.1</u> | <u>14.5</u> | <u>14.7</u> |
| <i>Actuarial standards and regulation</i> | | | |
| Core operating costs | 2.2 | 1.8 | 1.8 |
| Actuarial disciplinary case costs | - | - | - |
| Total | <u>2.2</u> | <u>1.8</u> | <u>1.8</u> |
| Total | <u><u>18.3</u></u> | <u><u>16.3</u></u> | <u><u>16.5</u></u> |

The core operating costs of actuarial standards and regulation include a fair apportionment (£0.6m) of our support services and corporate costs. As a result, the core operating costs of our work on accounting, auditing and corporate governance are £0.6m lower than they would otherwise be.

Accounting, auditing and corporate governance

Core operating costs

The budget for core operating costs for 2008/09 in relation to our responsibilities for accounting, auditing and corporate governance is £11.9m. The budget for 2008/09 represents an increase of 9% over the budget for 2007/08.

Analysis by category of expenditure

| | Draft Budget 2008/09 £m | Forecast 2007/08 £m | Budget 2007/08 £m |
|---------------------|--|------------------------------------|----------------------------------|
| Staff costs | 9.2 | 8.1 | 8.0 |
| Accommodation costs | 0.8 | 0.8 | 1.0 |
| Professional fees | 0.6 | 0.7 | 0.6 |
| IT costs | 0.5 | 0.5 | 0.5 |
| Other costs | 1.0 | 1.0 | 0.9 |
| Contingency | 0.3 | 0.2 | 0.3 |
| | 12.4 | 11.3 | 11.3 |
| Sundry income | (0.6) | (0.5) | (0.5) |
| Capital expenditure | 0.1 | 0.1 | 0.1 |
| Total | 11.9 | 10.9 | 10.9 |
| Staff numbers | 68 | 63 | 64 |

The increase in budgeted staff costs reflects the full year effects of staff increases in 2007/08, a planned increase in headcount from 64 to 68 during 2008/09, 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

| | Draft Budget 2008/09 | | Forecast 2007/08 | | Budget 2007/08 | |
|------------------|-------------------------------------|--------------|-----------------------------|--------------|---------------------------|--------------|
| | £m | Staff | £m | Staff | £m | Staff |
| ASB | 2.6 | 15 | 2.3 | 15 | 2.4 | 15 |
| APB | 1.1 | 7 | 1.0 | 6 | 1.2 | 7 |
| FRRP | 2.1 | 12 | 1.8 | 11 | 1.9 | 12 |
| POB | 1.5 | 8 | 1.3 | 7 | 1.3 | 7 |
| AADB | 1.2 | 7 | 1.1 | 5 | 1.0 | 6 |
| CGU | 0.1 | 1 | 0.1 | 1 | 0.1 | 1 |
| Support Services | 2.0 | 12 | 2.0 | 12 | 1.8 | 11 |
| Corporate | 1.3 | 6 | 1.3 | 6 | 1.2 | 5 |
| Total | 11.9 | 68 | 10.9 | 63 | 10.9 | 64 |

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 budget includes a contribution of £0.1m towards the funding of EFRAG. The implementation of the EU Directive on Statutory Audit has resulted in additional regulatory tasks. We estimate that these tasks will increase our costs by £0.1m in 2008/09. The increase in future years is likely to be greater. Additional resources will also be provided to the AADB.

Audit inspection costs

The only other category of activities which is susceptible to normal budgetary limits is the programme of independent audit inspection discussed under Supporting Outcome 3(c). The draft budget 2008/09 for the AIU has been reduced to £2.7m (a reduction of 4%) due to a reassessment of the expected costs of the proposed work programme and recognition of expected income from inspection work undertaken on a contractual basis. The AIU is planning to operate with 18 staff in 2008/09 compared to an average of 17 in 2007/08.

Accountancy disciplinary case costs

The case costs budget includes a provisional estimate of the costs to be incurred during 2008/09 in relation to five investigations which are currently underway and which are expected to continue beyond 2007/08. These are investigations concerning matters relating to the conduct of members of the accountancy professional bodies belonging to the AADB Disciplinary Scheme and/or their firms in relation to MG Rover, Langbar International Limited, Emerging Business Trust, iSoft Group plc and European Home Retail/Farepak.

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

Actuarial standards and regulation

Core operating costs

Core operating costs comprise the cost of BAS, the cost of the work undertaken by POB and AADB in relation to actuarial matters, and a fair apportionment of the cost of our support services and corporate costs (£0.6m).

The budget for core operating costs is £2.2m, representing an increase of £0.4m above the 2007/08 budget, in order to provide 2 additional staff to deliver the conceptual framework and strengthen the capacity to set actuarial standards.

We are planning to operate with 8 staff in 2008/09 compared to an average of 6 staff in 2007/08.

Actuarial disciplinary case costs

During 2007/08 the scope of the AADB's work was extended to include actuaries. No investigations are currently underway so no case costs have been budgeted for in 2008/09. Case costs might be incurred if the AADB decides to investigate any matters. The costs of such cases will be met from the actuarial case cost fund.

Actuarial Standards and Regulation – Funding Requirement

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

| | Draft Budget 2008/09 £m | Forecast 2007/08 £m | Budget 2007/08 £m |
|--|--|------------------------------------|----------------------------------|
| Core operating costs | 2.2 | 1.8 | 1.8 |
| Actuarial disciplinary case costs fund | 0.2 | 0.3 | 0.3 |
| Recovery of set-up costs | - | 0.1 | 0.1 |
| Total | 2.4 | 2.2 | 2.2 |

The core operating costs of actuarial standards and regulation include a fair apportionment (£0.6m) of our support services and corporate costs.

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. The contribution that is required to maintain the fund at an appropriate level is reviewed each year. We expect to raise an additional contribution of £0.2m in 2008/09.

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 expect to have recovered substantially all of these costs by the end of 2007/08.

Funding

We will consult on the details of our funding proposals for 2008/09 in February 2008.

Consultation question

12. Do you have any comments in relation to our draft Budget proposals for 2008/09?

Annex A - Strategic Framework

Overall Aim: Confidence in corporate reporting and governance

Strategic Outcomes which contribute to the Overall Aim:

| <p>Outcome One:</p> <p>Corporate Governance</p> | <p>Outcome Two:</p> <p>Corporate Reporting</p> | <p>Outcome Three:</p> <p>Auditing</p> | <p>Outcome Four:</p> <p>Actuarial Practice</p> | <p>Outcome Five:</p> <p>Professionalism of accountants and actuaries</p> | <p>Outcome Six:</p> <p>FRC Effectiveness</p> |
|---|---|---|--|--|--|
| <p>UK companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.</p> | <p>Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.</p> | <p>Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view.</p> | <p>Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.</p> | <p>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.</p> | <p>The FRC is an effective, accountable and independent regulator, actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.</p> |

| Strategic Outcome One: Corporate Governance | | |
|--|---|---|
| UK 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 listed 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) Directors 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) Directors 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 users to make informed decisions, including an assessment of the Directors’ stewardship. | |
| 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 place a high degree of reliance on the audit opinion, including 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 material 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 the professional judgements exercised 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. (AADB) |
| 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, accountable and independent regulator, actively helping to shape UK, and to influence EU and global, 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 globally 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) The FRC publishes an Annual Report which assesses progress towards the achievement of the outcomes included in the Strategic Framework and the FRC's own performance in implementing its annual Plan and meeting the principles of good regulation. | 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 BERR, 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 global organisations, and regulatory authorities in other major 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. |

Annex B – Supporting material published on the FRC website

This Draft Plan & Budget 2008/09 is supported by the following material which is available on the 'About the FRC' section of the FRC website:

Draft Plan 2008/09: Supplementary Information at <http://www.frc.org.uk/about/plans.cfm>

The 'About the FRC' section of the website also gives details of:

Our organisation

Regulatory Strategy (Version 3)
Membership and activities of our Operating Bodies
Funding arrangements

Our annual planning cycle

Annual Plans
Quarterly Strategic Progress & Planning Reports
Annual Reports

In addition, the FRC website provides details of all our publications, including:

Standards and related guidance
Press Notices
Consultation and discussion papers
Reports

Annex C – Abbreviations

| | |
|-------|--|
| AADB | Accountancy and Actuarial Discipline Board |
| AIM | Alternative Investment Market |
| AIU | Audit Inspection Unit |
| APB | Auditing Practices Board |
| ASB | Accounting Standards Board |
| BAS | Board for Actuarial Standards |
| BERR | Business, Enterprise and Regulatory Reform department (formerly DTI) |
| CCAB | Consultative Committee of Accountancy Bodies |
| CGU | Corporate Governance Unit |
| DTI | (former) Department of Trade and Industry |
| DWP | Department for Work and Pensions |
| EECS | European Enforcers Co-ordination Sessions |
| EFRAG | European Financial Reporting Advisory Group |
| EGAOB | European Group of Auditors' Oversight Bodies |
| FASB | Financial Accounting Standards Board |
| FRC | Financial Reporting Council |
| FRRP | Financial Reporting Review Panel |
| FSA | Financial Services Authority |
| HMT | Her Majesty's Treasury |
| IAASB | International Auditing and Assurance Standards Board |
| IASB | International Accounting Standards Board |
| IESBA | International Ethics Standards Board for Accountants |
| IFAC | International Federation of Accountants |
| IFRS | International Financial Reporting Standard |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFIAR | International Forum of Independent Audit Regulators |
| ISA | International Standard on Auditing |
| POB | Professional Oversight Board |
| SEC | Securities and Exchange Commission |
| SME | Small and Medium sized Enterprises |
| UITF | Urgent Issues Task Force |

Annex D – Contact details

Questions about the Draft Plan & Budget 2008/09, including responses to our consultation questions should be sent to:

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