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Dear Policy and Planning Officer

Draft Plan & Budget and Levy Proposals 2011/12

1. Ernst & Young LLP welcomes the opportunity to comment on the FRC's *Draft Plan & Budget and Levy Proposals 2011/12* ("the Plan"), issued in December 2010.
2. We support the work of the FRC and its positive influence on the business community, both in the UK and internationally. The FRC is highly respected for the way it formulates and implements regulation which is proportionate, targeted and carefully funded.

Overall observations

3. We broadly agree with the FRC's objectives for 2011/12, and have taken note of its proposals outlined in *Effective Company Stewardship*, which provides a useful insight into the FRC's future intentions. We welcome and support these proposals, which offer a proportionate response to the financial crisis and the lessons learned from it. We should also add that since the proposals are at a formative stage of development, we would not at this time expect the FRC to forecast the likely effect of them on its funding and levies, but no doubt this will be covered when it conducts a Regulatory Impact Assessment in due course.

Proposed major activities and projects for 2011/12

4. We support the FRC's intention to focus its work on achieving four major outcomes (i.e., better engagement between investors and boards, greater value from corporate and audit reporting, a stronger voice in the EU on auditing and reporting matters, and a more cost effective regulatory framework in the UK). We also support the FRC's specific objectives on corporate governance, financial reporting and auditing in the UK. We are already engaged with the FRC, FSA and other stakeholders on many of the activities identified in the Plan.



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5. On the topic of professional scepticism, we look forward to working with the APB on the initiatives it identified in its feedback paper this week. In the same connection, we welcome ways to make more transparent the application by auditors of professional scepticism in practice. The *Effective Company Stewardship* proposals include some interesting ideas in this area. In this regard, we would have also liked to see details of any plans the FRC has to make the reporting of audit quality, including how professional scepticism is exercised by auditors, as useful as possible for stakeholders.
6. The FRC's approach towards corporate governance reflects our own view; that making positive changes in one area of corporate governance is unlikely to deliver a sufficient all-round improvement in the way companies are managed. A renewed focus on enhancing the financial reporting triangle is required to enable management, audit committees and auditors to be more effective and better able to drive higher quality reporting and auditing. This will help augment further the confidence of investors and other stakeholders.
7. We also agree with the FRC's remarks about the importance of the EU and extent to which these matters are influenced by decisions taken at EU and international levels. This is why we support the FRC's aim to influence policymakers and standard setters in the EU and globally, especially in partnership with other institutions. This will obviously require a continued engagement between the FRC's constituent parts and all of its stakeholders.
8. Finally, the AADB's intentions towards the investigation of future cases highlights the importance of pursuing cases as effectively and as speedily as possible, irrespective of funding and resources. Likewise, the FRRP's plan to review 300 sets of accounts in more detail, with a view to help improve company disclosures needs to be, first and foremost, thorough and timely.

Draft budget and funding projections for 2011/12

9. We note the FRC's estimated increase in costs (up by £20.4 million) to cover upcoming disciplinary work. We also take note of the planned decrease in core operating costs (down by £0.7 million), together with a proposed reduction in the minimum levy threshold.
10. We have no issues or concerns with these estimates, and look forward to the FRC's future impact assessments (including resource, costs and regulatory effectiveness) when its proposals to increase its responsibility and power become more defined and certain.

Conclusion

11. We are grateful to the FRC for publishing its Plan, and we hope you have found our comments helpful. Should you wish, colleagues in our firm are available to discuss further any of the points we have raised, and for the avoidance of any doubt this is not a confidential reply. We wish you every success with the rest of the consultation process.

Yours sincerely



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