



FINANCIAL REPORTING COUNCIL

STRATEGIC FRAMEWORK

APRIL 2007



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Introduction

Our Strategic Framework, which we have developed in consultation with our stakeholders, 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 Supporting Outcomes and major Components are stretching but realistic medium-term aspirations. 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 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 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:

- 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.
- 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.
- 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 is 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 are available on our website at www.frc.org and contain more in-depth consideration of the Outcomes and Components than is possible in the Framework itself.

The Strategic Framework is designed to provide a basis for assessing levels of confidence in corporate reporting and governance in the UK. It also helps 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.

Strategic Framework

Overall Aim: Confidence in corporate reporting and governance

Strategic Outcomes which contribute to the Overall Aim:

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

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. (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:

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 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 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. |

Abbreviations

AIDB	Accountancy Investigation and Discipline Board
APB	Auditing Practices Board
ASB	Accounting Standards Board
BAS	Board for Actuarial Standards
DTI	Department of Trade and Industry
DWP	Department for Work and Pensions
FRC	Financial Reporting Council
FRRP	Financial Reporting Review Panel
FSA	Financial Services Authority
HMT	Her Majesty's Treasury
POB	Professional Oversight Board

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