Financial Reporting Council

March 2018

Strategy 2018/21

Budget and Levies 2018/19

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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Promoting transparency and integrity in business
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Effective
Be outcomes focused, timely, adaptable, professional and seek continuous improvement
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Be proportionate, consistent, honest, trustworthy and act with integrity
Independent
Be objective, impartial and transparent
Influential
Be credible and accountable. Lead through participation and innovation
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FRC MISSION

Our mission is to promote transparency and integrity in business.

This serves the interests of the public and the UK economy.

High levels of transparency and integrity build investor confidence and help businesses make sound decisions in their own long term interest and that of the wider economy. Public and investor confidence is particularly undermined by failures in transparency or integrity when they are related to poor governance, reporting or conduct.

Transparency includes companies testing their business model and strategy with the providers of capital and other stakeholders. Listening to them should help bring about more sustainable, balanced and ultimately more profitable outcomes. And it should encourage good reporting of businesses' wider contribution to society.

Integrity in business is necessary to secure the trust of investors, customers, workers, NGOs, Government and regulators. These stakeholders want to be confident that businesses and their professional advisers will do the right thing, not simply as a result of regulation but because of their corporate culture and values.

Public and investor expectations change over time in response to economic, societal, technological and environmental developments. Businesses and the accounting and actuarial professions need to understand and respond to these changes.

Confidence also depends on poor behaviour being held to account. The public wants to see poor behaviour investigated and sanctions imposed that are effective and in the public interest.

One - The Way We Work

The FRC - Acting with integrity, transparency, speed

We published our consultation document on our new three year strategy in December 2017. Since then the liquidation of Carillion has catapulted corporate governance and audit issues even more firmly into the public spotlight.

The responses to the consultation[1] have been constructive and challenging. Stakeholders broadly support our strategic priorities, which are set out in part two of this document. It is clear that they are looking for a strong lead from the FRC in strengthening the framework for corporate governance and in developing new models for corporate reporting and auditing.

Public confidence in business has undoubtedly been undermined over the last decade. High profile corporate governance scandals (particularly in relation to executive pay) and audit failures have led to concerns that business is not delivering for all. This has highlighted the need for companies to focus on the effectiveness of their governance and stewardship practices and to be transparent about how they are doing so; for audit to support and promote transparency and be more forward-looking; and for regulators, including the FRC, to do more to identify new and emerging challenges and risks. That is why in 2017 we created a new mission - to promote transparency and integrity in business. To deliver our mission we must also be transparent and act with integrity.

Evidence of improvements in audit quality is not sufficiently strong; and there is a lack of consistency in the quality of audit. It is vital that the audit firms' leadership establish a sound culture and learn quickly and effectively from root cause analysis. We are addressing this through our audit firm monitoring and supervisory approach. Events such as the collapse of Carillion and the necessary investigation of its audit (whatever the eventual outcome) impact on public confidence in audit. As the competent authority for audit our work in audit enforcement remains essential: we will continue to use our enforcement powers to hold auditors to account. Where failures occur remedies need to be tougher, apply more broadly, and be implemented more speedily than they have in the past. Following the independent review of our sanctions regime in 2017, we will ensure that our enforcement action continues to be robust and proportionate.

Over the longer term we are reviewing how audit should evolve to serve the public interest. Corporate failures such as Carillion have raised serious questions about the audit process. The scope of audit is an issue: as a snap shot in time, company audit does not evaluate future risk in anything like enough detail to enable investors to make informed decisions. Similarly, while we have introduced new requirements in respect of risk reporting, we are still some way from having truly meaningful interpretations of what is a going concern. Our work on the future of audit will consider whether the current audit requirements are sufficient; whether the audit

[1] https://www.frc.org.uk/consultation-list/2017/frc-strategy-for-2018-21-draft-budget-and-levy-pr.

process should be extended to other areas; and whether auditors can play a greater role in assessing risk.

We will continue to explore solutions to the challenges of corporate reporting and auditing based on the current legislative framework and to consider whether new powers are needed. We will work ever more closely with other financial regulators: between us there should be no gap in the legislative and other responses to corporate failures.

Competition - or lack of it - at the top end of the audit market remains a serious concern. As a regulator we cannot be content that just four large firms dominate the market for audit services. We believe that this has led to the risk of complacency in the behaviour of those firms. However, there is no easy solution and it is essential that any remedies do not result in further market concentration.

Despite the evident challenges posed by high profile business failures such as Carillion it is important to recognise that both corporate governance and company audit in the UK remain robust, internationally respected and key reasons why investors choose the UK as a favoured destination.

In 2017, we published proposals for a revised UK Corporate Governance Code to reflect the changing business environment and help UK companies achieve the highest levels of governance. The Code is shorter and sharper and builds on the findings from the FRC's Culture Report published in 2016. The revised Code focuses on the importance of long-term success and sustainability, addresses issues of public trust in business, and aims to ensure the attractiveness of the UK capital market to global investors through EU exit and beyond. In responding to our consultation on our strategy, stakeholders underlined the importance of monitoring compliance with the new Code.

The relationship between the company board and its investors is also very important. The UK Stewardship Code sets a framework for investors to engage with boards to support the long-term success of companies. The Stewardship Code has enhanced engagement but we do not believe it is as effective as it needs to be, particularly as UK-based investors take a shrinking share of UK equities. We have taken the opportunity of our consultation on the revised UK Corporate Governance Code to ask some high-level questions about the future direction of the UK Stewardship Code. We plan to consult on specific changes to the Code later this year.

There are growing societal expectations of business. As our consultations on the strategic report guidance and the UK Corporate Governance Code show, there is a strong expectation that companies report not only for investors but for a broader range of stakeholders, Companies should address their impact in financial and non-financial terms and communicate how they generate and preserve value. Issues such as diversity and environmental and social impact are increasingly important if company reports are to be meaningful for investors and the wider public. The FRC will lead a wide-ranging debate on future reporting models and help develop models that meet these wider expectations.

In our role in setting Technical Actuarial Standards and overseeing the regulatory activities of the Institute and Faculty of Actuaries (IFoA) we also need to take account of the changing economic and regulatory environment in which actuaries are operating, including the impact of new technology, climate change and other developments in the pensions and insurance markets. Actuarial work, and the regulatory framework, will need to keep pace with these developments.

UK Exit from the EU

We are working with BEIS, other regulators, and stakeholders to respond effectively to the implications of the UK exit from the EU. The FRC already has strong bilateral relationships with regulators, governments, standard setters and supervisory bodies around the world. We will build on partnership with them to counter-balance any reduction in influence in the EU by sharing experiences and expertise.

Investors value comparability of information. To this end, we are supporting the Government as it explores options for the UK's accounting framework following EU exit. We will help ensure the UK is positioned to maintain high standards of accounting by contributing to the development of the framework for any UK endorsement process for international accounting standards. Stakeholders have emphasised the importance of this issue, which will require further discussion and consultation. In our view, the key to comparability will be retaining IFRS. At the same time, we must understand how the UK's interests are impacted by new standards under IFRS and use that understanding to exert influence on the development of those standards and in deciding how they are adopted. If, in exceptional circumstances and subject to some strict criteria, there are aspects that need to be adopted differently in the UK we believe these should be considered.

We will continue to deliver our responsibilities as UK competent authority for audit and play a key role in international aspects of standards and regulation. As we gain clarity about the implications of EU exit for IFRS endorsement, and assessments of equivalence and adequacy of overseas regulation, we will evolve and adapt our processes in these areas. This may have implications for our resources.

The future for the FRC

We aim to meet the highest standards of governance and accountability as a public body, operating within the framework agreed with Government and independent from those we regulate. Our precise classification as a public body is still under consideration by Government. We welcome the Government's plan to review the work we do and will contribute positively to that process in pursuit of our public interest remit and greater transparency for investors and other stakeholders. The review provides an opportunity to consider public expectations and whether our powers are adequate to meet those.

We remain committed to the principles of good regulation, the 'comply or explain' principle for corporate governance, and the importance of true and fair reporting. We will ensure that our work is effectively targeted and avoids imposing unjustified regulatory burdens. Our work will continue to be guided by the evidence we gather through our regulatory activities and from research and analysis - including measures of trust in business, of progress towards our strategic priorities, and of our own effectiveness.

We will do more to reflect the views and interests of wider society. We must have the highest level of business and technical understanding, but must also encourage leadership and challenge from other perspectives. We have announced the appointment of two new directors with particular public interest experience in the not for profit and social sectors to bring further insight into the FRC's strategic thinking, and will in future recruit from a wider spectrum of experience for our Committees and our advisory Councils as well as the Board. We will use our broadly-based Stakeholder Advisory Panel, the Investor Advisory Group we are currently establishing, and other initiatives, to provide new insights and input into our work.

In setting our budget and funding requirement, we will take careful account of the view of stakeholders, including those who fund our activities. We have achieved further efficiency savings during 2017/18 and have reached the target level of reserves we set in 2017 earlier than planned. We will not, therefore, seek any additional contribution to our reserves through our levies in 2018/19. Some respondents to the consultation, questioned whether the FRC target level is appropriate. We will revisit the target in the light of our status as a public body and will if appropriate reduce the level of reserves.

Our 2018/19 budget for core costs (which exclude enforcement case costs) represents an increase of 3% over the budget we set for 2017/18 as we continue to strengthen our audit monitoring and supervisory work. Our overall funding requirement will increase by 1% as a result of additional work as competent authority for audit and for our new role in monitoring local public audit. We will not increase our preparers, insurance or pension levies in 2018/19.

We have included in the 2018/19 budget a contribution to the Institute and Faculty of Actuaries (IFoA) to help them develop their arrangements for monitoring the quality of actuarial work. We will work with the IFoA to establish a future funding model for this public interest activity and consult on any changes.

Looking ahead into the second and third years of the 2018/21 strategy period, it is possible that we will need additional resources in response to new expectations from Government and others for the monitoring of corporate governance and in response to the UK exit from the EU. We will continue to consult annually on our budget and funding and will consider how best to respond to stakeholders' call for more detail on aspects of our work.

Section two describes our strategic priorities in more detail, and the ways in which we will assess progress against each priority, including our published KPIs on the quality of audit and the speed of our investigations. In responding to the consultation, stakeholders encouraged us to develop a wider range of KPIs. We will consider the range of indicators we publish, including in our annual reports on developments in corporate reporting and auditing, and in our assessments of the impact of the standards we set.

Section three comments on our culture and people. Section four sets out our budget and funding requirement. Section five sets out the levies for 2018/19 and the basis on which we request them.

Sir Winfried Bischoff

Chairman

Stephen Haddrill

Chief Executive


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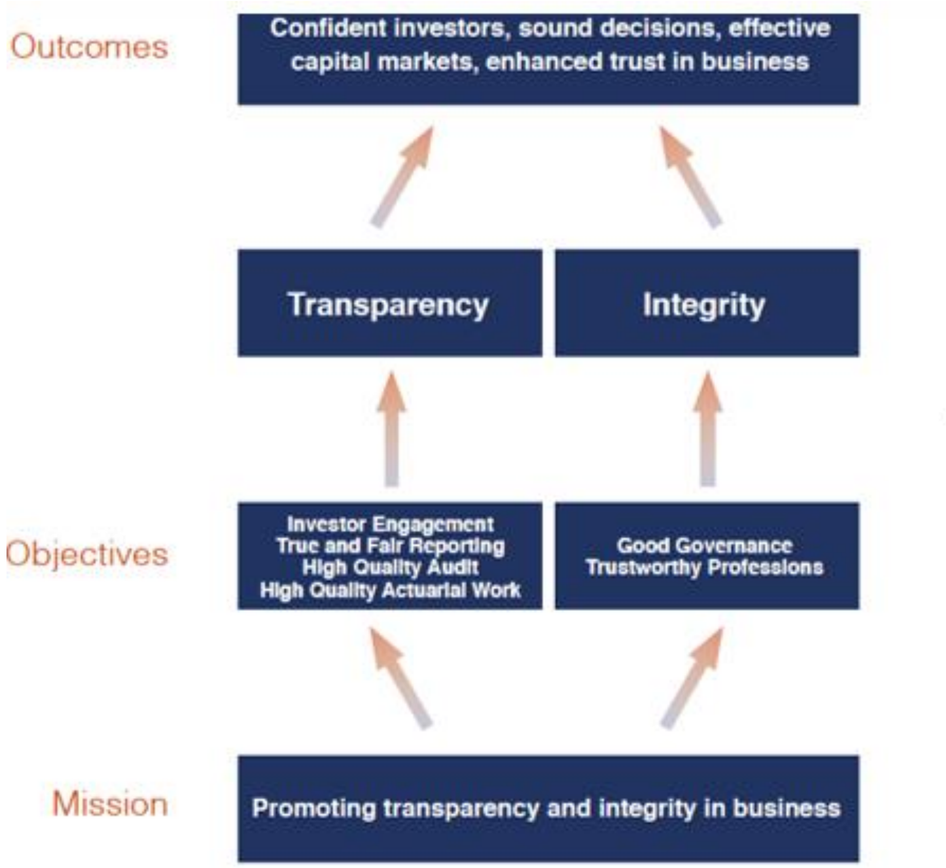
Two – Our strategic priorities 2018/21

This section sets out the broad objectives we will pursue and the major projects and activities we will undertake over the next three years in pursuit of our mission.



Promoting corporate governance and investor stewardship with a long term focus

The need to improve public trust in UK business has placed corporate governance under the spotlight and put growing demands on the UK regulatory framework. We welcome the Government's conclusions on corporate governance reforms.

The FRC has received more than 260 responses to our proposals for a revised UK Corporate Governance Code to reflect the changing business environment and help UK companies achieve the highest levels of governance. We have engaged with a wide range of stakeholders, and incorporated suggestions from the Government's Green Paper on Corporate Governance Reforms. This has enabled us to develop a Code which is shorter and sharper and fit for the future.

The revised Code will focus on the importance of long-term success and sustainability, addresses issues of public trust in business, and aims to ensure the attractiveness of the UK capital market to global investors through the UK's exit from the EU and beyond. It builds on the findings from the FRC's *Corporate Culture and the Role of Boards* Report published in 2016. We propose that that the boards of companies should:

- Establish a company's purpose, strategy and values and satisfy themselves that these and their culture are aligned.
- Undertake effective engagement with wider stakeholders, to improve trust and achieve mutual benefit, and to have regard to wider society.
- Gather views of and listen to the workforce.
- Ensure appointments to boards and succession plans are based on merit and objective criteria to avoid group think, and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- Be more specific about actions when they encounter significant shareholder opposition on any resolution, including those on executive pay policies and awards.
- Give remuneration committees broader responsibility and discretion for overseeing how remuneration and workforce policies align with strategic objectives.

We have added a Principle on corporate culture to the Code. Building trust in business has to start in the organisation and forming a healthy corporate culture is integral to the credibility of a company. Engaging with, and contributing to, wider society must not been seen as a tick-box exercise but imperative to building confidence among stakeholders and in turn the long-term success of a company.

We will closely monitor reporting on the new Code - including the way in which companies have reported meaningfully on how they have applied its Principles.

We recognise that, alongside bringing about change, we also need to preserve the current strengths of the UK framework, such as the unitary board, strong shareholder rights and the 'comply or explain' approach. It is also important that engagement between investors and companies is effective. The consultation on the revised UK Corporate Governance Code includes questions to inform the future direction of the UK Stewardship Code. We will consult on that Code later in 2018.

A Coalition Group has been established to develop and consult on new corporate governance principles for large privately-owned companies, which are integral to the UK economy as significant employers and supporters of communities. The aim is to encourage high standards of corporate governance and reflect the impact that large privately-owned companies have on society and the economy, by promoting:

- best practice in corporate governance and reporting arrangements,
- public trust and confidence through greater transparency in the manner in which large privately-owned companies conduct their business,
- strong corporate culture and integrity within large private businesses, encouraging broader consideration of workforce and wider stakeholder representation and interests; and
- investor, lender and creditor confidence to facilitate long-term value and improved productivity.

Measuring our performance and impact

In assessing progress on this strategic priority, we will consider:

- Listed companies' response to the changes to the UK Corporate Governance Code.
- The quality of nominations committee reporting on board diversity and succession planning.
- The take-up and impact of the governance principles for large privately-owned companies.
- Survey evidence of the extent and effectiveness of investors' engagement with companies.
- Evidence from the responses to our Stewardship Code consultation on the effectiveness of the framework.

Later in the strategy period, we will assess the impact of our initiatives on the effectiveness of the board's role in promoting the long term success of companies, and the impact of the changing nature of equity ownership on the role of stewardship.

Promoting true and fair reporting

Corporate reporting influences behaviour and is a core component of our strategy. We aim to drive continuous improvement in corporate reporting through our monitoring of annual reports and accounts, the use of thematic reviews and Financial Reporting Lab projects. The Lab provides an environment where investors and companies can come together to develop pragmatic solutions to reporting needs. With the support of our stakeholders, evidenced in the response to our consultation, we plan to take a lead in responding to the changing environment for, and greater expectations of, corporate reporting.

Standards of corporate reporting

Although generally good, there are areas of reporting where quality is not as high as it could be. Through our reviews of corporate reporting we find a number of cases each year where the application of financial reporting standards is unclear or where narrative reporting is not fair, balanced and comprehensive as required by regulation. Others areas for improvement include the clear identification of the assets and liabilities at risk of material change in the next twelve months, and clear explanations of the relationships between business strategy, KPIs, executive remuneration and performance as set out in the financial statements.

We will continue to use our powers and influence to address these deficiencies. We will focus especially on how companies are implementing the new accounting standards on revenue, financial instruments and leases which will come into effect in 2018 and 2019. The new standards will pose significant challenges to companies and could have an impact on the quality of reporting over that period. Companies need to assess these challenges and reflect their conclusions transparently in their reporting to the capital markets.

As noted in section one, we will continue to work closely with international organisations and regulators in other jurisdictions to promote high quality International Financial Reporting Standards (IFRS) and support the endorsement process for IFRS after the UK leaves the EU.

We will also maintain an effective framework for UK GAAP, keeping under review the impact of the recent changes. This is an important role for the FRC, as stakeholders emphasised in response to our consultation.

Future developments

The focus on excellent financial accounting standards will be complemented by ensuring that we respond to developments in wider reporting - including through the Strategic Report and our role in influencing international standards and other international developments. We need to ensure that corporate reporting in the UK retains its relevance in the face of shifting shareholder and stakeholder expectations, capital structures and other market developments.

Section 172 of the Companies Act 2006 requires company directors to promote the success of a company for the benefit of its members as a whole and to have regard to the impact of their decisions on their employees, the community and the environment. We will increase focus on companies' reporting on actions to support the long-term success of the company and to have regard to their impact on wider society, including making use of our Financial Reporting Lab to consider issues such as climate change.

We will consider the longer term development of corporate reporting. From the responses to the consultation it is clear that stakeholders want us to take a leading role in considering the role, purpose and relevance of the annual report in its current form and how the wider information needs of investors and other stakeholders can be better met. We understand the need for enhanced communication of non-financial outcomes and will play a leading role in encouraging more developed and harmonised reporting in this area. This may include the development of alternative reporting models. We will consider the role that technology could play in facilitating such models.

Measuring our performance and impact

In assessing progress on this strategic priority we will consider:

- Evidence from our corporate reporting reviews, including the quality of reporting by large public companies and smaller listed and AIM quoted companies.
- Evidence of the impact on the quality of reporting through pre-informed thematic reviews.
- Survey evidence on the understanding and effectiveness of our corporate reporting review role.
- Our assessment of the impact of the Financial Reporting Lab's initiatives, including those relating to business model reporting and risk and viability reporting.
- Quality and comprehensiveness of the UK specific evidence gathered on the implications of adoption of IFRS 17 (Insurance Contracts).
- Evidence on the quality of reporting from surveys by other regulators, bodies and market commentators.
- Evidence of changes in the landscape for corporate reporting, the impact of new technology, and companies' response to changing expectations for corporate reporting.

Promoting high quality audit and assurance

As UK competent authority for statutory audit, the FRC is responsible for setting audit standards, monitoring the quality of the audit of public interest entities, enforcing the standards required for such audits, and overseeing those regulatory tasks that we have delegated to the audit professional bodies - the Recognised Supervisory Bodies (RSBs).

Our strategic objective is to promote justifiable confidence in UK audit. High quality audit promotes transparency and integrity and provides investors and other stakeholders with a significant level of assurance that financial statements give a true and fair view, and provide a reliable and trustworthy basis for taking investment decisions.

Monitoring audit quality

Our monitoring of public interest entity audits and the firms that carry them out helps drive improvements in audit quality - including through reviews of firm-wide audit quality processes, thematic reviews, and reviews of audit engagements, focusing on areas of high risk.

In our last strategy we set the aim that by 2019 at least 90% of FTSE 350 audits will require no more than limited improvements as assessed by our monitoring programme. The annual report on Developments in Audit that we publish in 2019 will include our assessment of whether this aim has been achieved. However, we also wish to see a consistent, long-term trend of improvement. The 90% target is a waypoint not an end point. Over the strategy period we will consider increasing the target percentage and broaden its application, paying particular attention to financial services audits.

To secure improvements in audit quality, we also need to ensure that audit firms' leadership drives culture in the firms in ways that support quality and consistency. Regulation creates a framework and expectation of leadership in the firm, but it cannot succeed unless the culture of the firm is set and driven by strong leadership. We are conducting a thematic review of audit firm culture in the UK, which we will publish in 2018, and will engage with the leadership of the firms to make sure that the good practices identified in the review are taken up.

Audit firm monitoring and supervisory approach

As competent authority for audit, the FRC has responsibility for the regular monitoring and mitigation of risks in the audit market. These include the risks of systemic deficiencies within an audit firm network which could lead to the demise of that firm, disruption in the provision of statutory audit services - whether in a specific sector or across sectors, and impact on the overall stability of the financial sector. The largest audit firms are systemically important institutions; issues in one part of the firm's global network can affect the UK firm's reputation.

In response to this risk we are developing and will implement during 2018/19 a new approach to the monitoring of the largest audit firms – the Big Six firms[2] - which are core to the integrity and transparency of our capital markets. We will set out our expectations of each firm and seek evidence in five areas: leadership and governance; values and behaviours; business models and financial soundness; risk management and control; and evidence on audit quality, including from our programme of audit quality reviews. We have already started work on monitoring risk reporting, contingency planning and IT security. We will summarise our findings across the firms in our annual reports on Developments in Audit and we will report privately to the individual firms on matters outside the programme of audit quality reviews, which will continue to be subject to public reporting.

As part of our focus on leadership and governance we will set out our expectations of the experience, skills and attributes of candidates for key roles such as Independent Non

[2] BDO, Deloitte, EY, Grant Thornton, KPMG, PwC

Executives, Heads of Audit and Ethics partners at the Big Six firms. We will assess and feed back to senior management how well we believe their appointees meet these criteria. We do not have specific powers in this regard and will look for the firms' cooperation in doing so.

In order fully to implement our new approach we will ensure that we have staff with the necessary skills, knowledge and expertise.

Feedback on the monitoring and supervisory proposals has been positive. Recent events have demonstrated the need for more extensive and wide-ranging monitoring of the audit firms. We will continue to develop the approach and will implement the various elements in a focused manner.

The audit firms' international networks

The FRC, like other audit regulators, has no authority over the audit firms' international networks. However, UK audits frequently rely on the quality of work overseas. The international networks of the firms must ensure that public interest entity audits are completed to the highest standards by all national firms.

There continue to be examples of failings in key parts of these international networks. It is important that the networks themselves as well as the national firms take responsibility for such failures. We will continue to play a major role as members of the International Forum of Independent Audit Regulators (IFIAR) and contribute strongly to its initiatives to promote good and consistent regulation of the audit networks. We will also explore how standards set by the International Audit and Assurance Standards Board (IAASB) can be used to hold global as well as local leadership to account.

The audit of the future

We have already introduced a requirement for auditors to report on risks in the audit of financial statements, not just give a black and white opinion. These extended audit reports are an important step forward and are valued by investors. However they focus on the current audit and the financial statements of the previous years' performance. Past performance at a selected point in time continues to be the focus of audit.

Looking ahead, it is time to test the current stautory audit model and ask whether it can be made more effective as currently established, and how audit should be developed to serve the public interest in the future, taking account of changing business models, new technology and stronger public expectations. The FRC will be a leader in and support a broad and diverse coalition - of those seeking assurance, those affected by it, and those who may provide and facilitate it - to explore and respond to that challenge.

Standard-setting

We will continue our major contribution to the development of international standards and their governance framework. We will focus on foundation standards for audit leadership and quality control, and changes to audits of estimates aligned with new IFRSs. We will also consider how auditing standards can evolve to adapt to the opportunities offered by digital technology.

Towards the end of the 2018/21 strategy period, we will draw together evidence on the implementation of the new suite of UK standards introduced in 2016. It will be particularly important to review the Ethical Standard.

Professional oversight

We will agree with the RSBs KPIs for audit quality throughout the statutory audit market and how these are to be monitored. We will continue to oversee the audit qualification and our delegation of audit regulatory tasks to the RSBs. As part of this role, we will review the relevance of the audit qualification, particularly given developments in technology, and the effectiveness of their governance in supporting the public interest.

Monitoring the quality of local audit

Following the Government decision to disband the Audit Commission, we have been given a significant new regulatory responsibility for monitoring the quality of the audit of local public bodies which will commence in 2019. Over the strategy period, we will recruit as necessary staff with the specialist skills to enable us to fulfil this role.

Measuring our performance and impact

In assessing progress on this strategic priority, we will take account of a range of indicators:

- The findings from the FRC's annual audit quality reviews - including the proportion of FTSE 350 audits that require no more than limited improvements.
- RSB data on the quality of audits that are not within the scope of FRC monitoring.
- Evidence from our reviews of the quality of local audit.

Promoting high quality actuarial work

Actuarial advice underpins important aspects of corporate governance, reporting and auditing - particularly in relation to pensions and insurance.

The Joint Forum on Actuarial Regulation (JFAR) was established in 2013 by the FRC, the Institute and Faculty of Actuaries (IFoA), the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Pensions Regulator (tPR) to coordinate the identification of, and response to, public interest risks for which actuarial work is relevant.

During the strategy period, the FRC will:

- Continue to support and contribute to the work of the JFAR to identify and report on the risks to the public interest for which actuarial work is relevant.

- Continue to oversee the regulatory work of the IFoA, including the development of its Actuaries Code and the implementation of its plans to monitor the quality of actuarial work.

- Continue to update the risk assessment underpinning our technical actuarial standards; and, towards the close of the strategy period, carry out a post-implementation review of the revised framework of technical actuarial standards (TASs) - which took effect from July 2017 - and of the individual TASs.

- Engage with government bodies on the future of pensions disclosure and the ongoing appropriateness of the FRC's responsibility for standards supporting annual statutory money purchase illustrations.

Measuring our performance and impact

We will assess progress through Feedback on the new TASs and the JFAR Risk Perspective (which we updated in January 2018), the quality of the monitoring proposals that are agreed by the IFoA and the impact that our oversight procedures have on the actuarial profession.

Effective enforcement

Public confidence in business depends not just on regulators setting and monitoring standards but on auditors, accountants and actuaries being held to account when necessary. In 2017 the FRC took robust enforcement action in a number of cases with fines totalling just under £15m in the year, by some margin the largest aggregate annual sum to date. This included the largest fine ever imposed by the FRC, £5.1m, in respect of audit misconduct by a major audit firm. An independent review of our sanctions regime was conducted last year. The FRC is considering this report with a view to deciding how to implement its recommendations to ensure that enforcement action continues to be robust and proportionate.

We now pursue matters relating to inadequate audit under a new audit procedure which gives us greater powers to obtain information and documents from certain audited entities. It also provides that a greater range of conduct is potentially capable of attracting a sanction. We have further strengthened our team as a result of these changes, providing a sound platform for strong and timely enforcement action in the year ahead.

Looking ahead, the FRC will:

- Take firm, fair and timely enforcement action to protect the public, promote confidence in the profession, uphold standards and deter misconduct.

- Ensure our investigations are progressed efficiently and concluded more quickly.

- Review and update enforcement procedures in light of our experience under the new audit procedure.

- Following the independent review of our sanctions, apply revised sanctions guidance for tribunals to ensure our enforcement work acts as a credible deterrent to poor performance.

- Conclude our discussions with the professional bodies on the accountancy scheme.

- Continue to engage with stakeholders to explain better our powers and responsibilities.

- Be more transparent about the outcome of individual investigations such that where there is a clear public interest and subject to any applicable legal constraints, we will publish a summary of our reasons for closing an investigation.

- Consider the impact of emerging audit technology (such as AI and data analytics) on our investigation and enforcement processes.

Measuring our performance and impact

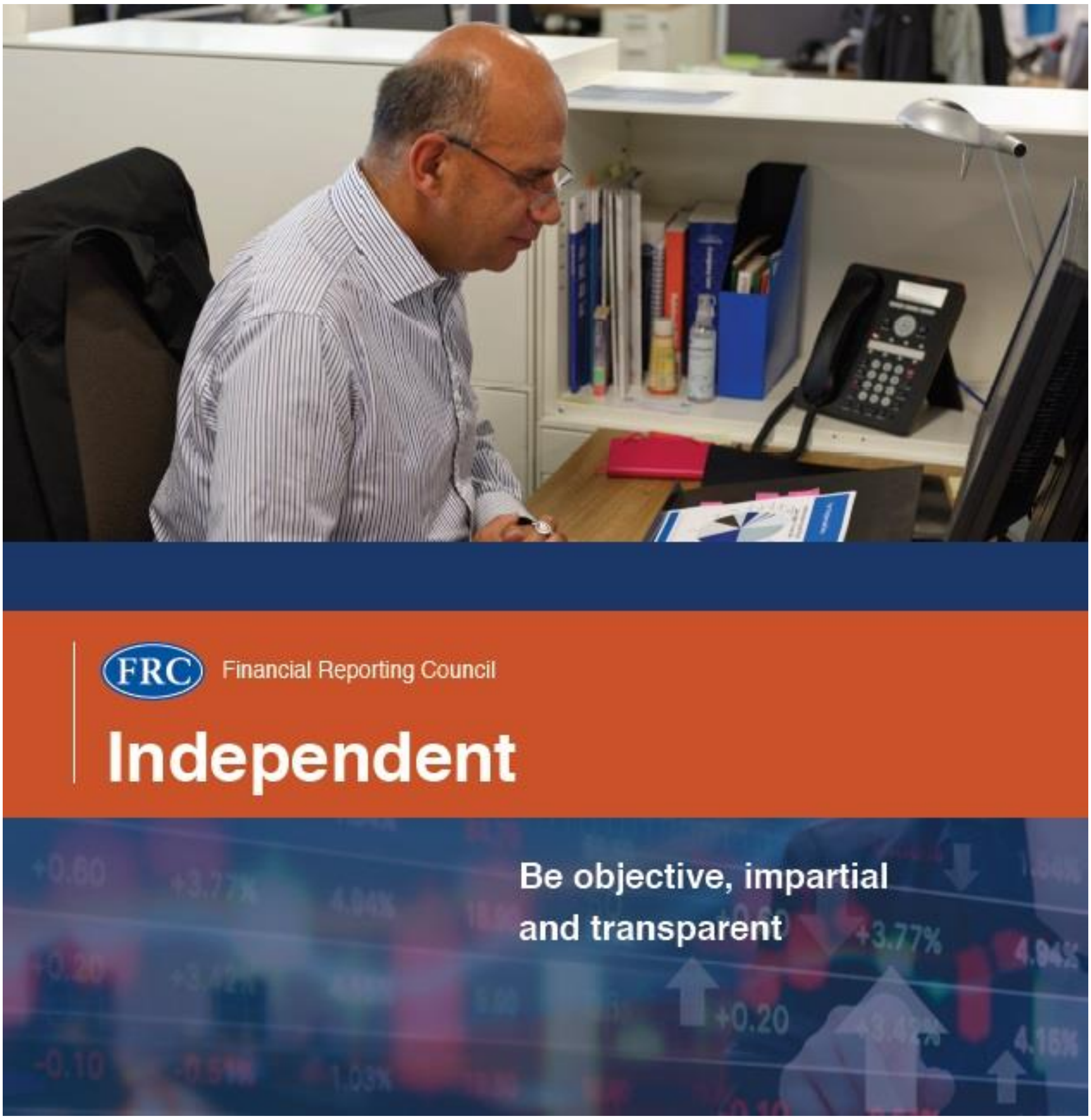
We will assess our performance against our published KPI of a maximum of two years between commencement of investigation and service of Proposed Formal Complaint or Preliminary Investigation Report and will consider other evidence of the impact of our enforcement activities.


Financial Reporting Council
Fair
Be proportionate, consistent, honest,
trustworthy and act with integrity

Projects and activities to promote:	2018/19	2019/20	2020/21
Corporate governance and investor stewardship with a long term focus			
Annual report on the quality of UK corporate governance and reporting	→	→	→
Finalise the revised UK Corporate Governance Code and its associated guidance	→		
Monitor the implementation of the revised Code		→	→
Consult on a revised UK Stewardship Code	→		
Further action to promote good investor stewardship		→	→
Incorporate the findings of our 2016 Corporate Culture report into the revised Guidance on Board Effectiveness	→		
True and fair reporting			
Undertake our annual programme of reviews of corporate reports, and thematic reviews (see note)	→	→	→
Publish our annual assessment of the quality of corporate reporting in the UK	→	→	→
Financial Reporting Lab projects (including, in 2018/19, projects on performance measures and digital reporting)	→	→	→
Influence the development of IFRS and post-Brexit endorsement arrangements	→	→	→
Updated Guidance on the Strategic Report	→		
Influence the future development of corporate reporting, including in the context of S172	→	→	→
High quality audit and assurance			
Monitor and report upon the quality of firms' audit work (see note)	→	→	→
Annual report on Developments in Audit	→	→	→
Establish a coalition to review the future of audit	→		
Audit firm monitoring and supervisory approach	→	→	→
Report on RSB governance and set KPIs for RSB quality reviews	→	→	→
Support the development of international auditing and ethical standards	→	→	→
Influence the post-EU exit regulatory framework for audit.	→		
Monitor the quality of local public body audit		→	→

Review the pilot project to develop an Audit and Assurance Lab.	→		
Effective enforcement			
Progress, conclude and report on audit, accountancy and actuarial cases.	→	→	→
Introduce revised sanctions guidance to Tribunals.	→		
Develop best practices to support the Audit Enforcement Procedure.	→		
High quality actuarial work			
Assess the IFoA's updating of the Actuaries Code	→		
Oversee the IFoA's regulatory work – including the monitoring framework for actuarial work.	→	→	→
Annual update of the JFAR risk perspective.	→	→	→
Post-implementation review of the revised framework of TASs			→
Engage with Government on pensions disclosure.	→		

Note: The FRC will supplement its monitoring programmes with a series of thematic reviews of certain aspects of corporate reports and audits where there is particular shareholder interest, and scope for improvement and learning from good practice.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Three – Our culture and people

In 2016 the FRC published a report on 'Corporate Culture and the Role of Boards' developed in partnership with a number of organisations. The central message of the report was the increasing importance of corporate culture in delivering long-term success. In developing our own organisational culture we are following the key themes identified in the report. Our aim is to cultivate a culture of high performance in which we develop our people to be decisive, speedy, firm and fair, as well as engaged with a broad set of stakeholders.

Our starting point has been to better align our mission, values and behaviours. Our new mission and values, which underpin this strategy were developed through discussion and debate across the organisation. They are supported by the whole FRC team and will guide the way we work and assess our perfomance.

We are independent from those we regulate, with a strong public interest ethos. But we also need the technical skills, practical experience and the authority to set, influence and monitor codes and standards. This requires our people to be experts in their field with industry experience, so as to have the authority to set and influence national and international standards.

A major theme for this strategy period will be diversity - including in our governance structure, and in the way we pay and reward people, to make sure sure that everyone is treated fairly. Our Chief Executive is a member of the BEIS Ministerial Task Force on Diversity and as an organisation we intend to become more diverse, recognising that there is a need to make better progress in some areas. At Executive Committee level we have, and seek to maintain, a broadly equal male and female split. We need to improve further on other aspects of diversity, and will use new methods to recruit a broader range of candidates.

We have a range of learning and development programmes that are available to all our people and mentoring and work placements are undertaken across the FRC. We will use these programmes to encourage the development and contribution of all our colleagues regardless of their background. We are a signatory to the Women in Finance Charter, which includes pledges to promote gender diversity by: having one member of our senior executive team who is responsible and accountable for gender diversity and inclusion; setting internal targets for gender diversity in our senior management; publishing progress annually against these targets in reports on our website; and having an intention to ensure the pay of the senior executive team is linked to delivery against these internal targets on gender diversity.

We have in place an apprenticeship programme and have also started to offer work experience through Speakers for Schools and the Social Mobility Foundation (SMF). One of our teams volunteers with SMF to act as mentors to high-achieving young people from low-income backgrounds to help them achieve their ambitions through gaining entry to the universities and professions. Some of our teams have engaged in team-building activities organised around community projects; and we intend to do more of this type of volunteering in future.


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Four - Budget 2018/19

Our annual budget sets out the resources we need to carry out our roles and responsibilities for the year as a public body. The key elements are the costs of:

- Our core operating activities for our work in relation to corporate governance, corporate reporting, audit and assurance, and professional oversight of the accountancy profession - which we recover through voluntary levies on companies and through payments from the accountancy professional bodies.

- Our work on technical actuarial standards, oversight of the actuarial profession, and enforcement against actuaries in public interest cases, which we recover through voluntary levies on insurance companies and pension schemes and an annual contribution from the actuarial profession.

- Investigating and prosecuting audit and accountancy enforcement cases in the public interest, which we recover directly from the accountancy professional bodies.

The budget for 2018/19 is shown as follows:

  - Table 1 shows the budget allocated to our roles and responsibilities and the amount we allocate to reserves.

  - Table 2 shows the budget allocated to the main types of expenditure. Staff costs account for the majority of our expenditure.

  - Table 3 shows the current and projected level of reserves.

  - Table 4 shows the funding requirement for 2018/19 and the amounts requested from each of our funding groups. Our levies are set out in Section Four.

We have spent less than we budgeted for in 2017/18. Our staff costs have been lower than we originally planned because recruitment to some roles has taken longer than anticipated.

The main increase in our budget for 2018/19 is the projected cost of the proposed audit firm monitoring approach on which we consulted in the draft strategy 2018/21.

Looking ahead through the 2018/21 strategy period, while we will continue to seek efficiency savings and ensure that we are carefully prioritising our work, we may need additional resources particularly in delivering our standard-setting and other regulatory responsibilities following the UK exit from the EU.

Table 1: Budget	2017/18	2017/18	2018/19
	Budget	**Estimate**	**Budget**
	£m	**£m**	**£m**
Corporate Governance & Reporting			
Corporate governance	1.1	0.9	0.8
Accounting and reporting	2.9	3.1	3.2
Corporate reporting review	4.0	3.9	4.2
Financial Reporting Lab	1.0	0.8	0.9
XBRL	0.2	0.2	0.2
Central costs	1.8	1.7	1.6
Sub total	11.0	10.6	10.9
Audit and Assurance Regulation			
Audit quality review	7.7	7.6	7.9
Audit & Assurance standards	1.9	2.0	1.9
Audit frm monitoring			0.6
Professional oversight	1.9	2.1	2.2
Central costs	1.8	1.8	1.9
Sub total	13.3	13.5	14.5
Actuarial Standards & Regulation			
Technical actuarial standards	0.9	0.7	0.8
Professional oversight	0.2	0.2	0.2
IFoA actuarial monitoring			0.1
Central costs	1.0	1.0	1.0
Sub total	2.1	1.9	2.1
Enforcement			
Enforcement core costs	3.4	3.4	3.3
Sub total	**29.8**	**29.4**	**30.8**
Audit and accountancy case costs	5.0	5.0	5.0
Actuarial case costs	0.5	0.1	0.5
Total	**35.3**	**34.5**	**36.3**
Increase/(Decrease) in reserves	0.7	1.7	-
Funding requirement	**36.0**	**36.2**	**36.3**

The following table analyses our budget by type of expenditure:

Table 2: Budget - Expenditure type	2017/18	2017/18	2018/19
	Budget	Forecast	Budget
	£m	£m	£m
Staff costs	21.5	20.8	22.0
Non-Executive Directors Fees	1.6	1.6	1.5
Facility costs	2.0	2.0	2.0
IT & Website	0.7	0.8	0.8
Travel	0.6	0.4	0.5
Conferences	0.2	0.2	0.2
Recruitment	0.2	0.2	0.2
Training	0.3	0.3	0.3
Legal / professional / audit	1.2	0.9	1.3
Research	0.2	0.1	0.1
All others	1.3	2.1	1.9
Total	29.8	29.4	30.8
Actuarial case costs	0.5	0.1	0.5
Audit/ and accountancy case costs	5.0	5.0	5.0
Total	35.3	34.5	36.3

Reserves

We maintain case costs reserves and general reserves to ensure that we can deliver our regulatory responsibilities effectively and can meet unexpected costs in the public interest. Our aim has been to establish general reserves equivalent to six months operating costs; we have kept this target under review and do not propose to add to our general reserves in 2018/19.

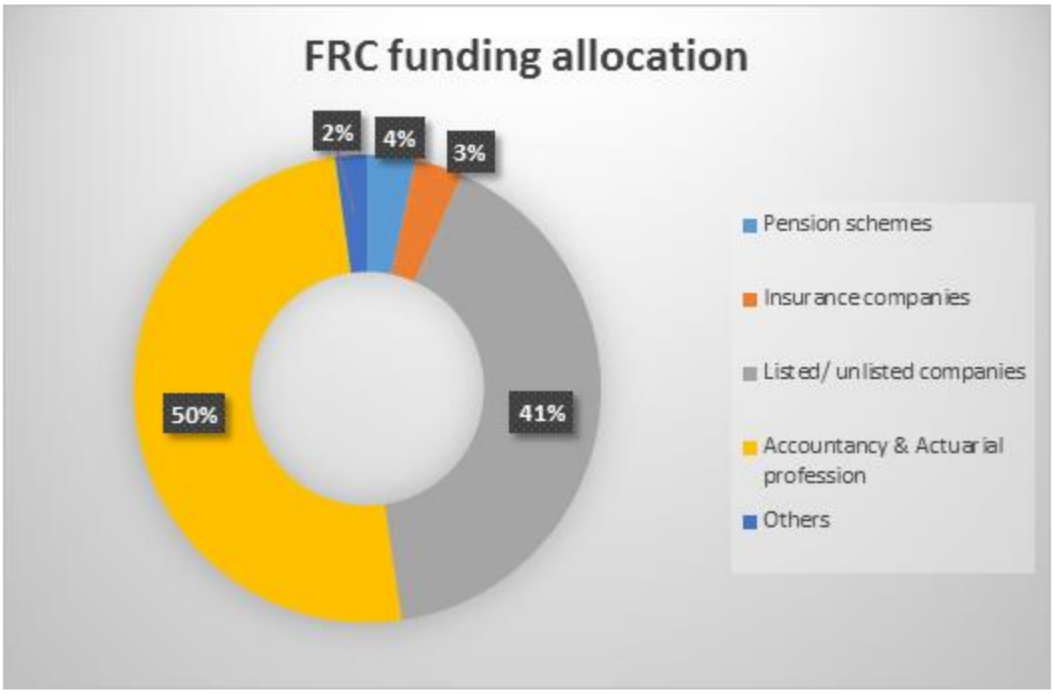
Table 3 - Reserves	**April 2017**	**March 2018**	**March 2019 (Forecast)**
	£m	**£m**	**£m**
General reserve	6.1	7.8	7.8
Conduct Committee legal fund	2.0	2.0	2.0
Actuarial case costs fund	2.0	2.0	2.0
Total	**10.1**	**11.8**	**11.8**

Funding

The following table sets out our funding requirement by funding group for 2018/19:

Table 4	**2017/18 Funding requirement**	**2017/18 Forecast**	**2018/19 Funding requirement**
	£m	**£m**	**£m**
FRC total expenditure	35.3	34.5	36.3
Proposed additions to/(call on) reserves	0.7	1.7	0.0
Total funding requirement	**36.0**	**36.2**	**36.3**
Funded by:			
Audit and accountancy funding groups			
RSB contribution to AQR funding	6.5	6.8	7.0
Other AQR income	0.8	0.8	0.9
Contribution to standards & oversight	4.2	4.2	4.1
CIMA	0.8	0.8	0.7
Case costs	5.0	5.0	5.0
Audit firm Supervision - RSB contribution			0.6
Preparers levy	14.8	14.8	14.8
Actuarial funding groups			
Insurance levy	1.4	1.5	1.2
Pension levy	1.4	1.5	1.2
IFoA	0.2	0.2	0.2
Unspent prior year (forecast)	0.4	0.0	0.0
Publications and other income	0.5	0.6	0.6
Total	**36.0**	**36.2**	**36.3**

Four - Levies 2018/19



Accountancy professional bodies

The accountancy profession's contribution is paid by the Consultative Committee of Accountancy Bodies (CCAB), whose members are ACCA, CAI, CIPFA, ICAEW, and ICAS; and by CIMA which contributes to the FRC's funding requirement under the terms of a separate agreement with the FRC.

The ICAEW, ICAS, ACCA and CAI are Recognised Supervisory Bodies (RSB) for audit under Schedule 10 of the Companies Act 2006. The FRC, as the audit competent authority, delegates certain audit regulatory tasks to each RSB under a Delegation Agreement. Schedule 10 of the Companies Act 2006 and each Delegation Agreement also place an obligation on a RSB to fund the FRC's performance of any tasks that have not been delegated where these relate to the regulation of auditors registered with that RSB. This covers the costs of the FRC's audit review activities, audit enforcement activities and standard-setting procedures and from 2018/19 our audit firm monitoring approach. If the FRC's audit investigation and sanctions work results in a statutory fine under the Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR), that fine would be required by those regulations to be paid to the Secretary of State.

Case costs under the accountancy scheme (which would previously have covered cases that are now be subject to the SATCAR arrangements) are met by the individual participating body to which the members or firms that are the subject of each case belong. In the event of disciplinary complaints being brought, the disciplinary tribunals have powers to award costs against those found guilty of misconduct. Any fine income received or legal costs awarded to the FRC in relation to disciplinary cases subject to the accountancy scheme are returned to the participating bodies which met the related case costs.

Our Audit Quality Review team carries out work under contract and receives payment from the PSAA, the National Audit Office and fees levied on Recognised Auditors registered in the Crown Dependencies. In 2019 funding for our new responsibilities to monitor local public audit will be provided by the relevant accountancy bodies.

Levies

Requests from the Financial Reporting Council for levy payments make clear that the payments are non-statutory and collected on a voluntary basis. In the fact sheets accompanying requests for payments we also explain that should the system of voluntary payments prove unsustainable we would request that the Secretary of State make regulations to put the FRC's levies on a statutory basis. The Companies (Audit, Investigations and Community Enterprise) Act 2004 includes provisions to enable this.

Preparers levy

The preparers levy is the annual levy we request from:

- Companies listed on the London Stock Exchange with a Premium or Standard listing.
- UK companies quoted on AIM and listed on NEX Exchange.
- Large privately-owned entities with a turnover of £500m or more.
- Global Depository Receipt (GDR) issuers.
- Government Departments, local authorities and other public sector organisations.

The total amount of the preparers levy for 2018/19 will be £14.8m. In addition to this the FRC will aim to collect the UK contribution to the funding of the International Accounting Standards Board, totalling £0.9m in 2018/19.

The amounts payable are determined through a minimum levy and further amounts for organisations above a certain size, with the rate per £m declining in five levy bands, aligned with the FCA levy arrangements. The amounts finally requested from individual levy payers are based on their market capitalisation as at the end of November 2017 (for listed companies), and on the latest available data on turnover for other companies, and annual gross expenditure for public sector organisations.

We are reducing the minimum fee and the levy rates for levy bands one to five by 2.5% for organisations within our preparers levy funding group:

	Organisation size per £m*	2018/19 Preparers levy rate
Minimum fee	Up to 100m	£1,044
1	100m - 250m	£10.23
2	250m - 1,000m	£7.80
3	1,000m - 5,000m	£7.55
4	5,000m - 25,000m	£0.1229
5	> 25,000m	£0.0233

Discounts: Companies with a Standard listing receive a 20% discount. UK AIM quoted and NEX Exchange listed companies receive a 50% discount. Privately-owned entities with a turnover of more than £500m receive a 50% discount. Public sector organisations receive a 75% discount. The following table gives examples of the levy that will be charged to different types of entity:

Organisation	2018/19 levy
UK AIM company with £100m market cap	£522
Private company with £750m turnover	£3,239
Premium listed company: £25bn market cap	£41,085

We are maintaining the levy on Global Depository Receipt issuers at the same level as in 2017/18: £3,450 for companies that have designated the UK as their home competent authority and £2,750 for other issuers. The FCA's Home Competent Authority list is available at http://www.fsa.gov.uk/ukla/hcaList.do.

Actuarial standards and regulation

During 2017/18, we collected more than originally estimated from the insurance and pension levies. We are therefore reducing the amounts we seek through these levies in 2018/19 compared to the amounts we would otherwise have requested. As a result, the amounts we request in 2019/20 and 2020/21 may increase compared to 2018/19 depending on the outcome of the planned consultation on future IFoA arrangements for monitoring the quality of actuarial work. As we note in the introduction to this strategy document, we will work with the IFoA to establish a future funding model for this public interest activity and consult on any changes.

Insurance levy for 2018/19

The insurance levy is allocated to insurance companies as a proportion of the FCA and PRA regulatory fees and requested on the same invoice as the FCA/PRA fees. We are proposing to raise £1.2m from the insurance levy in 2018/19 and we will confirm the levy rate to be applied in the first quarter of 2018 on the basis of the FCA/PRA fees once these are confirmed.

Pension levy for 2018/19

The FRC pension levy applies to all Defined Benefit and Defined Contribution schemes with 5,000 members or more. We are proposing to raise £1.2m from the pension levy in 2018/19 and we will confirm the levy rate in the first quarter of 2018 after considering the data on scheme membership provided by the Pensions Regulator.

Institute and Faculty of Actuaries (IFoA)

When we took on responsibilities for actuarial standards and regulation in April 2006 it was agreed that the IFoA would contribute a share equivalent to 10% of the cost of our actuarial activities. We have maintained this approach for 2018/19.

Our budget for 2018/19 includes £0.1m of possible funding for the professional body in respect of its proposed actuarial monitoring programme - on which it will consult in 2018/19.

Third Country Auditors – Registration and renewal fees

A third country auditor seeking registration in the UK must pay to the FRC a fee upon application and an annual fee thereafter for renewal of its registration in accordance with the Third Country Auditors (Fees) Instrument 2011. This fee is based upon our anticipated costs to administer the regime. The amounts payable are determined by the anticipated cost of processing applications from each of the three categories of registration; Equivalent, Transitional or Article 45. Audit firms from countries which have not been assessed as having audit oversight, monitoring and discipline regimes equivalent to those of the European member states or regimes which are moving in that direction involve the greatest amount of processing and therefore incur the highest fees. We are not increasing the registration and renewal fees in 2018/19. The fee structure is set out below.

	0-9 relevant clients		**10+ relevant clients**	
	Equiv/trans	**Art 45**	**Equiv/trans**	**Art 45**
2018/19	**£1,136**	**£2,272**	**£2,840**	**£5,680**

Other income

The FRC also generates income from its publications, including from electronic rights. The XBRL project is funded by HMRC, the Charity Commission and UK Companies House. We also receive some bank interest on our deposits.

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