Financial Reporting Council

March 2015

Plan & Budget and Levies 2015/16

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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Section One Overview

The Financial Reporting Council's (FRC) mission is to promote high quality corporate governance and reporting to foster investment. We encourage companies to produce the trustworthy information necessary for informed investment decisions; and encourage trustworthy behaviour by directors and professionals and engagement with them by investors.

High standards of corporate governance and reporting are important for the fair and effective functioning of the capital markets. They benefit investors, companies and the wider public interest. The FRC is responsible for maintaining codes and standards for corporate governance, investor engagement, corporate reporting, audit and other forms of assurance, and for actuarial information. We monitor compliance with corporate reporting and auditing standards. We oversee the accountancy, audit and actuarial professional bodies in their regulatory roles; and we operate independent disciplinary schemes for accountants and actuaries. Our Financial Reporting Lab helps companies and investors collaborate on improvements to reporting.

Ultimately it is for boards, preparers, auditors, actuaries and other professionals to implement the standards we set; our role is to support them as far as possible by reinforcing best practice and providing a regulatory framework that is seen as realistic and helpful – and that can bite when necessary.

The FRC's programme of work for 2015/16 is designed to build on existing initiatives and give companies, investors and their professional advisors time to absorb the changes we have introduced. The FRC will reflect on whether the aims of those initiatives are being achieved.

This will be the third year of our current three year strategy, which is based on five outcomes:

- High quality corporate governance and investor stewardship which foster trust in the way companies are run.

- High quality corporate reporting that is fair, balanced and understandable.

- High quality audit and confidence in the value of audit.

- Actuarial oversight and standards which underpin high quality actuarial practice, and the integrity, competence and transparency of the actuarial profession.

- Effective, proportionate and independent investigative, monitoring and disciplinary procedures.

In the wake of the financial crisis we needed to consider whether boards were looking far enough ahead at the health of the business and reporting sufficiently the risks they faced; whether auditors were sufficiently sceptical and aware of risks themselves; and whether investors were both getting the information they needed and exerting sufficient influence over the companies they owned.

In updating the UK Corporate Governance Code in 2014 we sought to encourage longer term thinking by boards. We have clarified that boards should look at least a year ahead in making their going concern judgement for accounting purposes and introduced the viability statement through which boards should state that they have a reasonable expectation that the company can continue in operation and meet its liabilities over a longer period. The Code has also been changed on executive pay to promote the link between remuneration and the sustained success of the business rather than focus on recruitment and retention. We will continue to address emerging governance issues while assessing the impact of the recent changes to the Code.

The governance of individual companies depends crucially on the culture that is in place. We still see examples of governance failings. Boards have responsibility for shaping the company culture, both within the boardroom and across the organisation as a whole.

Our guidance on risk management highlighted the need for boards to think hard about how they can better assess whether the culture practiced within the company is the same as that which they espouse, particularly under pressure. During 2015 the FRC will review how effective boards establish company culture and practices, embedding good corporate behaviour. We will promote the best practice we identify.

We also promote clear and concise reporting that investors need. Guidance on the Strategic Report is designed to help companies give investors an insight into the way a business is run and its strategic direction. During the year there has been extensive reporting on the issues arising from the work of our Financial Reporting Lab and the findings of corporate reporting reviews to help companies enhance the usefulness of their reports for investors.

Engaged shareholders are a key ingredient of a healthy capital market. The Stewardship Code was introduced in order to encourage fund managers and asset owners to engage with companies on all Key matters of concern, and the FRC will continue to monitor closely whether they are implementing the approach to engagement committed to in signing up to the Code. We also strongly welcome the creation of the Investor Forum to facilitate and stimulate engagement.

As a core part of our three year strategy we have pursued a programme of measures to enhance audit quality and strengthen investor confidence in audit. We introduced audit retendering every ten years on a comply or explain basis and this has shaken up the audit market. However, for that reform to be successful we need to ensure that the increased competition drives up audit quality. The initial signs on this in the largest companies are encouraging. The changes we introduced for audit committee and auditor reporting have also helped. Investors have welcomed the greater understanding they now have of the work of the committees and of the auditor – which has encouraged committees to focus even harder on securing audit quality and encouraged auditors to innovate in their reporting.

We have also strengthened our audit inspection and oversight capabilities. There will be further changes as we work with the Department of Business Innovation & Skills (BIS) on the implementation of the new Audit Directive and Regulation.

In 2015/16 we will see through the initiatives already set in hand; and give companies, investors and their professional advisors time to respond to those initiatives and begin to secure the intended benefits. We will be looking carefully at the overall impact of FRC regulation to ensure that we are not imposing an unrealistic burden of change on market participants.

During this strategy period we have reviewed the FRC's and the professional body's roles in ensuring the relevance and quality of actuarial information. We have established coordination of regulators with public interest objectives affected by actuarial work. During 2015/16 we will conclude on our joint survey of risks to the quality of actuarial work and will use that evidence to inform the development of the FRC's actuarial standards.

We are grateful for the feedback we received on the Draft Plan & Budget and Proposed Levies 2015/16. The responses have been published on our website at **https://www.frc.org.uk/Our-Work/Publications/FRC-Board/Draft-Plan-and-Budget-and-Proposed-Levies-2015-16.aspx**

In the light of that feedback, we can confirm that we intend in 2015/16 to build on the progress that has been made in the following areas in particular:

- Corporate governance – Focus on company culture and how to promote good practice; and on company succession planning.
- Investor stewardship – Support better engagement between boards and shareholders and ensure that Stewardship Code signatories deliver on the commitments.
- Corporate reporting – Promote reports that as well as being fair, balanced and understandable are also clear and concise; and continue our project to help smaller listed and AIM companies with the quality of their reporting.
- Actuarial – Finalise the project to identify and respond to public interest actuarial risks and further work on technical actuarial standards.

- Audit – Support BIS in implementing the amended EU Audit Directive and Regulation; and continue the programme of work to promote audit that is of a consistently high standard and meets investor needs.

- Conduct – The FRC will consider the overall effectiveness of its work to review the quality of corporate reporting and auditing; and continue to enhance the pace and effectiveness of our independent disciplinary arrangements.

Across all our responsibilities, we will promote the UK interest in high quality EU and international regulation, including both standard-setting and cooperation to address issues that cut across jurisdictions.

During 2015/16 we will be developing our next three year strategy, for 2016/19, and will consult stakeholders on the areas on which we should focus and on our regulatory approach and the basis on which we are funded. We will also be assessing whether we have met the objectives of the 2012 reforms to FRC powers and structure. We will continue to invest in our people and information systems and to demonstrate our strong commitment to our values as an organisation and the good regulation agenda.

Good two-way communication is crucial for good regulation. We will continue to encourage those we regulate and the investor community to engage with us and help shape the regulatory framework so that it serves the wider public interest without imposing disproportionate burdens on market participants. We will continue to favour principles over prescription.

We are conscious that our work imposes costs on market participants through the regulatory fees we charge. Our budget and levies are intended to support our essential regulatory role.

We remain committed to operating in a way that is cost effective. Our budget for core operating costs, funded through our levies, will increase by 6% to £21.0m (2014/15: £19.8m). This will enable us to deliver our priority projects and activities while supporting BIS in preparing for the implementation of the new Audit Directive and Regulation. The minimum levy on accounts preparers will increase by 3.2% compared to 2014/15. The levy payable by larger organisations will vary according to their market capitalisation (or, where applicable, turnover). The contribution from the accountancy professional bodies will increase by 2.5%.

Our budget for our audit quality reviews will increase by 12.5% to £5.4m (2014/15: £4.8m) in response to the CMA requirements. Audit quality review and accountancy disciplinary case costs are funded by the accountancy professional bodies.

In conclusion, we are encouraged by the positive responses from boards, auditors and the investor community to the reforms we have introduced within the framework of our current three year strategy and to our proposed work programme for the coming year. We are ready to intervene when necessary; and remain alert to opportunities to achieve our aims with greater efficiency as well as greater effectiveness. We value the feedback we received on our annual plan and will take it into account in our work in 2015/16.

Sir Winfried Bischoff
Chairman

Stephen Haddrill
Chief Executive Officer

Section Two Priorities for 2015/16

Across all its activities the FRC seeks to act in the public interest.* Investors, insurance policyholders, pension scheme members, savers, employees, consumers, creditors, taxpayers, clients of professional accountancy and actuarial advice and other groups are affected by the issues we address through our work. Although each of these groups may define their requirements in different ways they all have an interest in high standards of governance and reporting.

This section sets out our priorities in pursuing each of the outcomes in our three year strategy.

For each outcome we have included key effectiveness indicators against which we will report in our Annual Report 2014/15.

High quality corporate governance and investor stewardship that foster trust in the way companies are run

Corporate governance

A revised UK Corporate Governance Code was published in September 2014. As we explain in the Overview our aim was significantly to enhance the quality of information investors receive about the long-term health and strategy of companies, and to raise the bar for risk management. We also included amendments to the remuneration sections.

During 2015/16, we will:

- Continue an assessment of the quality of board succession planning and consider how to develop best practice.
- Review how effective boards establish company culture and practices, embedding good corporate behaviour.
- Following the 2014 changes to the UK Corporate Governance Code, seek evidence of the companies' early experience of implementing risk management and viability reporting.
- Consider, in advance of any formal consultation, possible changes to the Code in 2016 as result of the CMA recommendations in relation to audits of FTSE 350 companies.

As key effectiveness indicators we will consider:

- Compliance with the Code, including early take-up of the changes made to the Code in 2014, and the clarity of explanations given by FTSE 350 companies for non-compliance with any Code provisions using the criteria set out in the Code.
- The extent to which small cap companies adopt the Code recommendations on board and committee composition, and the level of voluntary take-up by those companies of Code recommendations addressed to FTSE 350 companies, such as annual election of directors and audit retendering.

Investor stewardship

Effective investor stewardship supports the long term success of companies delivering sustained benefits to their shareholders. We are seeking an improvement in the quantity and quality of engagement; for asset managers to be more accountable to their clients, who should in turn generate the demand for stewardship; and for proxy advisers to be more accountable for the quality of their advice.

Although these outcomes can only ultimately be delivered by the market, the FRC can contribute by providing an agenda for engagement through initiatives to update the UK Corporate Governance Code and promote corporate reporting that is more relevant and useful for investors; by using the Stewardship Code to encourage fund managers and asset owners to explain their stewardship policies and practices and how they are meeting the expectations of clients and beneficiaries; and by leading the stewardship debate in the UK and internationally.

* Our document 'The FRC and its Regulatory Approach' explains in more detail our role, our governance and funding. The document is on our website at **www.frc.org.uk//about.**

There are some encouraging signs of more engagement on a wider range of issues between the larger listed companies and their shareholders; but this is not the case across the listed sector or the signatories to the Stewardship Code as a whole.

The FRC will focus on the following areas in 2015/16:

- Developing the evidence base for engagement practice and the benefits of effective engagement.
- Encouraging asset managers and owners to provide better accounts of their engagement policies and practices.
- Undertaking scrutiny of adherence to the Stewardship Code.
- Influencing the development of the new EU Shareholder Rights Directive.

As key indicators of the effectiveness of our work to promote the benefits of stewardship, particularly in promoting the Stewardship Code, we will look at:

- The frequency and scope of reporting by asset managers to clients and levels of satisfaction with that reporting.
- The percentage of mandates awarded by asset owners to asset managers that explicitly refer to stewardship.
- The percentage of Stewardship Code signatories with independent opinions on their engagement who make those opinions available to clients.

High quality corporate reporting that is fair, balanced and understandable

During 2014/15 we have built on our 'cutting clutter' agenda through our initiative to promote clear and concise reporting, including by publishing guidance on the Strategic Report and the Corporate Reporting Review Annual Report and a report by the Financial Reporting Lab. Building on the progress in promoting fair, balanced and understandable reporting, the aim is to encourage all those involved in the financial reporting process to focus on communication, the placement of information and materiality.

During 2015/16 we will:

- Undertake our annual programme of reviews of around 250 corporate reports, directed at companies of economic significance where a material misstatement could have implications not just for the individual company but for confidence in the market as a whole. Our priority sectors will be insurance, food, drink and consumer goods manufacturers and retailers, companies servicing the extractive industries and business services. We will pay particular attention in our reviews to revenue recognition, the reporting of complex supplier arrangements, business combinations and the implementation of new accounting standards.
- Evaluate the impact of the Guidance on the Strategic Report, work with BIS on the UK implementation of the EU Directive on Non-financial Reporting and continue to influence other regulators to support clearer and more concise reporting that is relevant to investors.
- Continue our project aimed at achieving over a three year period a step change in the quality of reporting of smaller listed and AIM companies. In 2015/16 we will report on our progress and plan to help these companies improve their reporting.
- Issue new reporting requirements for small and micro companies in response to the implementation of the EU Accounting Directive; and consider consequential amendments to FRS 102.
- Continue to influence the International Accounting Standard Board (IASB) agenda, particularly its Conceptual Framework and its work on disclosures, including specific research to influence developments in cashflow reporting.

- Publish the latest findings from the Financial Reporting Lab project on Corporate Reporting in a Digital World and publish the outcomes of the Lab's work on disclosure of dividend policy and capacity.

The FRC will conduct outreach and evaluation exercises and draw on research and data provided by others to obtain evidence to support the assessment of its effectiveness on reporting. Our key indicators will be:

- The quality of reporting as evidenced by our corporate reporting reviews.
- An assessment of the contribution of Lab projects and Strategic Report guidance to clearer and more concise reporting.
- Evidence on the root causes of problems in reporting by smaller listed and AIM companies.
- Evidence of the extent of voluntary adoption of FRS 101 to help assess its fitness for purpose; and of the impact of FRS 102.
- The impact of our work to secure user views on IFRS and how effectively we have represented them in our responses to, and work with, the IASB.
- The extent of direct company and investment community participation in Financial Reporting Lab projects and influence of the Lab's reports on corporate reporting practice.

High quality audit and confidence in the value of audit

We believe that audit should continue to develop to deliver higher quality audits more consistently, to engender higher justifiable confidence in audit and to meet evolving public expectations.

During 2014/15 we have continued to promote audit quality through the review of around 125 audit engagements, issuing public reports on our findings overall and on individual major audit firms. We have supplemented our routine audit inspections with thematic reviews of specific issues across all firms, including aspects of the quality of bank and building society audits. We are reviewing the impact of our 2012/13 changes to audit committee and auditor reporting.

During 2015/16 we will:

- Monitor and report on the quality of around 140 individual engagements and make appropriate use of our new regulatory powers to impose sanctions where poor quality audit work is identified. In determining which engagements are subject to monitoring we will take account of the priority sectors and relevant areas of focus outlined under the high quality corporate reporting objective. We will also pay particular attention to the quality of first year audits.
- Follow-up the thematic review of the quality of auditing of banks and building societies; and undertake thematic studies on audit quality processes covering quality control monitoring procedures and the Engagement Quality Control Review (EQCR) together with audit sampling.
- Assess how audit committees are applying, on a voluntary basis, the CMA recommendations on audit quality review (AQR) transparency.
- Continue to discharge our responsibilities for statutory oversight of the regulation of auditors by the recognised professional accountancy bodies.
- Continue to work with BIS to ensure that the EU Audit Regulation and Directive is implemented to ensure an effective, appropriate and proportionate regulatory regime for audit. This will include considering the impact of any changes on the structure of audit regulation and related FRC powers and on the FRC's ethical and auditing standards.

- Consult on and finalise proposed revisions to the ethical standards to address issues identified in our review of the ethical framework.
- Contribute to the work of the International Auditing and Assurance Standards Board, the International Forum of Independent Audit Regulators and other EU and international groups.
- Contribute to the development of an updated Audit Firm Governance Code.

Key effectiveness indicators will be:

- The evidence from our audit quality reviews.
- Achieving our target increase in the number of audits inspected (to around 140 in 2015/16).
- Progress in the implementation of the extended audit committee and auditor reporting changes; and investor feedback.

Actuarial oversight and standards that underpin high quality actuarial practice and the integrity, competence and transparency of the actuarial profession

In 2013 the FRC undertook a review with the Institute and Faculty of Actuaries (IFoA) and other bodies to consider whether the framework for actuarial regulation remains appropriate and adequately addresses the risks of poor quality actuarial work. Subsequently we established the JFAR with the IFoA, the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Pensions Regulator. We have agreed to work together, within the context of our individual responsibilities, to coordinate responses to the public interest risks relating to actuaries and actuarial work.

During 2014/15 we have: confirmed the respective standard-setting responsibilities of the FRC and the IFoA; issued a discussion paper on risks to the public interest for which actuarial work is relevant; and consulted on a new framework for our Technical Actuarial Standards (TASs). We are currently assessing user and practitioner confidence in the relevance, clarity and reliability of actuarial information and in the competence and integrity of the actuarial profession.

During 2015/16, we will:

- Finalise the standards framework.
- Taking account of the feedback on the discussion paper on risks to the public interest for which actuarial work is relevant, agree on those areas for which specific TASs should be maintained or developed and consult on them.
- Oversee the IFoA on the development of its standard: APS QA1 on quality assurance in organisations and APS X2 on work review and peer review for individuals; and on preparations for the full implementation of Solvency II in January 2016.

As a key indicator of our effectiveness we will assess compliance with our standards, including through survey evidence and information from the monitoring activities of JFAR members.

Effective, proportionate and independent investigative, monitoring and disciplinary procedures

In pursuing our regulatory objectives we ensure that our work in setting codes and standards and monitoring and enforcing specific aspects of corporate reporting and auditing is closely integrated. Delivering our conduct functions effectively and efficiently requires us to adapt them to changing circumstances, including the requirements of Government policy.

In 2013 the CMA (then the Competition Commission) issued its report on the provision of statutory audit services to large companies in the UK. The report included recommendations that require the FRC to increase its audit quality review activities, including the frequency of inspection and reporting on major audit firms and inspection of FTSE 350 audit engagements.

We have in 2014/15 recruited additional AQR staff. This will enable us to increase the number of FTSE 350 audits reviewed annually – in line with our plans to meet the CMA recommendation to inspect such audits on average every five.

We will require further additional resources in 2015/16 to meet the CMA recommendations and to implement the EU Audit Directive and Regulation. This will increase the number of firms inspected annually by the FRC as the inspection of any firms with public interest audits, as defined by the EU, will no longer be able to be delegated to the relevant Recognised Supervisory Bodies (RSBs).

During 2014/15 we have also:

- Extended our thematic inspections which allow us to drill deeper into specific audit risk areas. In 2014/15 we have undertaken thematic inspections of aspects of bank audits, the application of materiality and the quality control procedures of the audit of disclosures.
- Updated our operating procedures for the monitoring of annual report and accounts to facilitate greater transparency and further support the cascading of lessons learnt from our monitoring activity.
- Improved the efficiency and effectiveness of our professional disciplinary team by undertaking more work in house and being able to manage more proactively case progress.
- Continued to plan for implementation of the new oversight arrangements for local public sector audits established through recent legislation. The first inspections under these arrangements will not take place until late 2018. In the intervening period we will continue to review local public sector audits under contractual arrangement with the Audit Commission and a transitional body which will be established to replace the Commission.

Our priorities for 2015/16 will be to:

- Continue to enhance the overall effectiveness, efficiency and coherence of our monitoring and disciplinary roles – including a project to consider the effectiveness of our corporate reporting and audit quality review activities.
- Continue to put in place our response to the CMA and other regulatory or legislative recommendations, including recruiting further additional resources.
- Support BIS in the implementation of the new Audit Directive and Regulations and should the government decide that the FRC to be the competent authority, this will require significant change to the audit quality, oversight and discipline areas during the year in readiness for June 2016.
- Continue to develop our Supervisory Inquiries function to gather information on matters affecting public interest entities, enabling the FRC to respond quickly to matters of public concern and take informed decisions on the most appropriate regulatory action to take.
- Ensure that the FRC's revised operating procedures for transparency of reviews of company accounts and changes to the format of our annual reporting are achieving the desired results on greater transparency for investors.

- Continue to work with our European counterparts attending European Securities and Markets Authority (ESMA)'s European Enforcers' Co-ordination Sessions, and keep under review the impact of ESMA's Enforcement Guidelines in the first full year of implementation.

- Continue to work with the International Forum of Independent Audit Regulators and the European Audit Inspection Group to develop international audit regulation with a view to enhancing the consistency of audit quality throughout the major audit networks.

- Having developed our third country auditors' inspection regime to enable us to carry out five such inspections in 2014/15 to carry out a similar or higher number in 2015/16.

As key indicators of our effectiveness we will assess whether:

- We have recruited sufficient additional resources to deliver the increased reviews of audit engagements and the timeliness of those inspections.

- We have made progress on concluding broadly equivalent disciplinary investigations in a timely manner.

Section Three Budget 2015/16

The FRC's annual budget is set at a level that reflects our judgement on the resources we need to fulfil our mission efficiently and to deliver against the objectives set out in the operating plan.

Funding arrangements for 2015/16 continue to be split between core operating costs which are under our direct control and those costs which are more dependent on external factors, notably the public interest cases that fall within the scope of our disciplinary arrangements and our audit quality review activities. They differentiate between our responsibilities in relation to corporate governance, corporate reporting and auditing and our responsibilities for actuarial standards and regulation. Funding for each of these activities is provided by separate funding groups. .

The overall budget for 2015/16 is shown the following table*:

£m	2014/15 Budget	2014/15 Expected	2015/16 Budget
Total Income in relation to:			
Corporate governance, reporting and audit	17.5	17.5	18.4
Actuarial standards and regulation	2.3	2.4	2.6
Audit quality review	4.8	4.2	5.4
Accountancy case costs	7.2	5.5	7.0
XBRL	0.3	0.3	0.3
TOTAL	**32.1**	**29.6**	**33.7**
Gross Expenditure in relation to:			
Corporate governance, reporting and audit	17.5	17.2	18.4
Actuarial standards and regulation	2.3	2.4	2.6
Audit quality review	4.8	4.2	5.4
Accountancy case costs	7.2	5.5	7.0
XBRL	0.3	0.3	0.3
TOTAL	**32.1**	**29.6**	**33.7**

**'Note: The figures set out in this and the following sections are rounded to the nearest £0.1m, and the 2014/15 results are based on our expectations at the end of February 2015.'*

For all our activities we seek to maximise the value that we add for our wide range of stakeholders, including those who contribute directly to our costs through our funding arrangements. This approach requires us to exercise discipline over our own costs but also to ensure that we have adequate resources to deliver the priorities we set in consultation with our stakeholders and to meet our statutory obligations.

The plan identifies what we see as the current challenges for all those involved in corporate governance and reporting in the UK, and the importance of an effective and proportionate response from the FRC. To ensure that we can make that response, we are increasing the resources for our core regulatory activities in relation to corporate governance, corporate reporting and accounting and in relation to our actuarial activities.

We expect the gross costs of the accountancy disciplinary scheme to return to the level expected in the current year's budget as we continue to make progress in concluding the cases currently under consideration, and to investigate any cases that may arise during the year.

In order to implement effectively the recommendations made by the CMA following their review of the UK audit market, we are increasing funding for that area.

Core operating costs in relation to corporate governance, accounting and auditing

Our core operating costs and funding requirement for each of the main funding groups are summarised in the table below:

£m Corporate governance, reporting and audit	2014/15 Budget	2014/15 Expected	2015/16 Budget
Funding Requirement	17.5	17.5	18.4
Funds provided by:			
Preparers	11.2	11.4	12.1
Accountancy Profession	5.0	5.0	5.2
Government Grant	0.5	0.5	0.3
Other (incl publications income & interest earned)	0.8	0.6	0.6
Transfer (to) / from reserves			0.2
TOTAL	**17.5**	**17.5**	**18.4**

The increase in the expenditure budget for this area of our activity is 5.1% compared to the expected result in 2014/15. This will allow us to continue to resource the core areas of both Codes & Standards and Conduct activity, whilst adding additional resources to support our work in support of BIS to implement the amended EU Audit Directive and Regulation.

A review of our corporate reporting review and audit quality review activities by a firm of external strategy consultants has been commissioned to take place between February and May 2015. The required expenditure will be met from core operating costs in 2014/15 and from reserves in 2015/16.

The budget assumes that we will utilise £0.2m of reserve.

Core operating costs in relation to actuarial standards and regulation

The budget for 2015/16 is shown in the table below. There are no planned significant increases in the resources required to deliver the priorities as set out in the plan. However we have included in the budget the cost of a tribunal hearing on an existing actuarial disciplinary case during 2016 requiring higher case costs.

£m Actuarial standards and regulation	2014/15 Budget	2014/15 Expected	2015/16 Budget
Funding Requirement	2.3	2.4	2.6
Funds provided by:			
Insurance funds	1.05	1.1	1.2
Pension funds	1.05	1.1	1.2
Actuarial profession	0.2	0.2	0.2
Other (incl publications income & interest earned)			
TOTAL	**2.3**	**2.4**	**2.6**

Audit quality review

The costs of audit quality review identified in the table below include only the specific and variable costs of audit inspection. The majority are met by the individual Recognised Supervisory Bodies (RSBs) with which the firms that are subject to inspection are registered. We also seek to recover costs from other bodies for whom we carry out inspection work. The fixed overheads of our audit inspection activities (such as accommodation and shared IT systems) are included in our core operating costs.

In 2015/16 we are planning to expand the audit quality review team further in order to implement the recommendations made by the CMA following their review of the UK audit market in 2013. Going forward we will seek to review FTSE 350 audit engagements on average every five years; and there will also be an expectation of more frequent reporting on mid-tier firms, roughly doubling the current frequency.

The budget for 2015/16 is set out below:

£m Audit quality review	2014/15 Budget	2014/15 Expected	2015/16 Budget
Funding Requirement	4.8	4.2	5.4
Funds provided by:			
Accountancy profession	4.1	3.5	4.4
Other (incl Audit Commission, Crown Dependencies)	0.7	0.7	1.0
TOTAL	**4.8**	**4.2**	**5.4**

Accountancy disciplinary case costs

The costs shown below include only the specific and variable costs of accountancy cases taken by the FRC. The FRC's related fixed overheads (such as core staff, accommodation and shared IT systems) are included in core operating costs. The costs of staff who are employed for specific investigations are included here.

Accountancy disciplinary case costs are funded by the accountancy professional bodies to which the individuals or firms which are subject to each case belong, within the terms of a formal case-costs agreement. Case costs are forecast on the basis of the available information on actual or prospective cases. The accuracy of the forecast will depend on the number of new cases and progress made on existing cases and is therefore subject to a degree of uncertainty.

Fines and cost awards received by the FRC are returned to the relevant accountancy professional body. Under the terms of the case cost agreement, cost awards made against other parties (which totalled £2m in 2014/15) are to be netted off against the amounts required to fund cases.

We expect the amount required to investigate and prosecute cases in 2015/16 will be broadly in line with expenditure in the current year. Three cases are due for tribunal before the end of the current financial year and a further eight cases are now subject to a formal complaint. Cost awards have been made against other parties during the current year. We do not feel it is prudent to budget for these in 2015/16.

£m Accountancy case costs	2014/15 Budget	2014/15 Expected	2015/16 Budget
Funding Requirement	7.2	5.5	7.0
Funds provided by:			
Cost awards recovered	–	2.0	–
Accountancy profession	7.2	3.5	7.0
TOTAL	**7.2**	**5.5**	**7.0**

XBRL taxonomy development

The first phase of our work to develop a new set of taxonomies for UK GAAP was completed as expected during 2014. The second phase in 2015 will focus on FRS 103 and other areas of our standards including SORPs. The expenditure will cover the support and hosting of the development platform along with a small amount of technical resource.

£m XBRL	2014/15 Budget	2014/15 Expected	2015/16 Budget
Funding Requirement	0.3	0.3	0.3
Funds provided by:			
Companies House	0.3	0.3	
Users of taxonomy data			0.3
TOTAL	**0.3**	**0.3**	**0.3**

Reserves

In total the FRC reserves stood at £7.8m at the end of March 2014. Our budget for 2014/15 was prepared on the basis that we would break even in that year. The expected costs of an external review of our AQR and CRR activities to be carried out between February and May 2015 will be met from within expenditure plans and from reserves. Total reserves are therefore expected to fall to £7.6m by March 2016.

The breakdown is set out in the table below:

£m	Balance at 31st March 2014	Change in year to March 2015	Balance at 31st March 2015 Expected	Change in year to March 2016	Balance at 31st March 2016 Expected
General reserves					
Corporate governance, reporting and audit	2.6	–	2.6	-0.2	2.4
Actuarial standards and regulation	1.2	–	1.2	0.0	1.2
Sub total	3.8	–	3.8	-0.2	3.6
Case funds					
Corporate Reporting Review	2.0	–	2.0	0.0	2.0
Actuarial discipline	2.0	–	2.0	0.0	2.0
Sub total	4.0	–	4.0	0.0	4.0
TOTAL	**7.8**	**–**	**7.8**	**-0.2**	**7.6**

General reserves are maintained in order to enable the FRC to meet its obligations should there be unexpected reductions in funding received or to meet unexpected but necessary increases in core operating costs.

Case fund reserves are maintained to enable the FRC to meet higher than expected expenditure on legal fees in investigations or disciplinary actions over and above the amounts included in funding plans in any given year.

Section Four Levies

Levy on accounts preparers

The levy applies to publicly traded companies, large private entities and public sector organisations and is used to raise a proportion of the FRC's annual funding requirement and the UK contribution to the IASB and the European Financial Reporting Advisory Group (EFRAG).

Funding requirement

For 2015/16, our funding requirement is as follows:

	FRC requirement		plus	IASB contribution		=	Preparers levy	
	Forecast 2014/15	**Budget 2015/16**		**Forecast 2014/15**	**Budget 2015/16**		**Forecast 2014/15**	**Budget 2015/16**
Levy group	£m	£m		£m	£m		£m	£m
Publicly traded companies	8.0	8.4		0.6	0.6		8.6	9.0
Large private companies	3.0	3.2		0.2	0.2		3.2	3.4
Public sector organisations	0.4	0.5		0.1	0.1		0.5	0.6
Total	11.4	12.1		0.9	0.9		12.3	13.0

Preparers levy rates for 2015/16

The amounts payable under the preparers levy 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. Details of the levy are published on our website at **http://www.frc.org.uk/funding**

Overall receipts are determined by the FRC's funding requirement, the size of the levy population and the rates we charge.

This will result in an increase in the levy rates that will be applied to their market capitalisation/turnover – to determine the amount actually charged – of 3.2% for firms of up to £100m, 7% for firms over £100m and 9% for firms over £1billion.

Rates to be applied:

In order to raise the overall amount we require we will apply the following rates:

Band	Organisation size Per £m	2015/16 Preparers levy rate Per £m*	2014/15 Preparers levy rate Per £m*
Minimum fee	Up to 100m	£1,024	£992
1	100m - 250m	£10.03	£9.37
2	250m - 1,000m	£7.65	£7.15
3	1,000m - 5,000m	£5.70	£5.23
4	5,000m - 25,000m	£0.0959	£0.088
5	> 25,000m	£0.0182	£0.0167

** Size is either based on market capitalisation, published turnover, or overall expenditure depending on the type of organisation.*

The following example illustrates the way in which the 2015/16 levy will on this basis be calculated for a Premium Listed Main Market Company, a large private entity and a public sector organisation each of which is £1.3bn in size:

Example	Premium Listed Main Market Company with a market value of £1.3bn	Large private entity with a turnover of £1.3bn	Public sector organisation with expenditure of £1.3bn
Organisation size per £m	Levy payable at 2015/16 rates (£)	Levy payable at 2015/16 rates (£)	Levy payable at 2015/16 rates (£)
Up to 100m	£1,024.00	£1,024.00	£1,024.00
100m - 250m	£1,504.50	£1,504.50	£1,504.50
250m - 1,000m	£5,737.50	£5,737.50	£5,737.50
1,000m - 5,000m	£1,710.00	£1,710.00	£1,710.00
Total	**£9,976.00**	**£9,976.00**	**£9,976.00**
Less discount	-	£4,988.00	£7,482.00
Levy Charge	**£9,976.00**	**£4,988.00**	**£2,494.00**

Main market companies with a Premium listing pay the full levy. Companies with a Standard listing receive a 20% discount, in line with the discount provided under the FCA listing fees. Large private entities with a turnover of more than £500m receive a 50% discount while public sector organisations receive a 75% discount on the levy rates.

Global Depositary Receipt issuers will pay the same levy as in 2014/15, that is, £3,450 for companies that have designated the UK as their home competent authority and £2,750 for the rest of the group. The Financial Conduct Authority's official Home Competent Authority list is available at **http://www.fsa.gov.uk/ukla/hcaList.do**

Insurance levy

The insurance levy will be allocated to insurance companies in the same proportion as the FCA regulatory fees and charged to insurance companies on the same invoice as the FCA fees. In 2015/16 we propose to set a levy equivalent to 0.94% of the fees charged by the FCA/Prudential Regulatory Authority..

Pension levy

On the basis of the necessary data from the Pensions Regulator we propose to raise the £1.2m in the same proportion from the pension schemes as in 2014/15.

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