Dear Sirs

Financial Reporting Council’s draft plan and budget and proposed levies 2016/17

BDO LLP (BDO) welcomes the opportunity to comment on the FRC’s draft plan, budget and proposed levies for 2016/17. BDO supports the FRC in the consolidation of the improvements in corporate reporting, governance and audit to date and welcome the FRC’s focus on increasing investor stewardship in improving the accountability of boards and audit committees and the focus on culture within businesses.

Prior to addressing the consultation questions BDO are concerned that within the introduction the FRC, whilst acknowledging the improvements made in corporate reporting and audit, have made reference to “promoting a step change in audit quality and driving up standards of governance, stewardship and reporting”. This statement appears inconsistent with improvements achieved to date and the reports issued by the FRC’s own Audit Quality Review team which indicate that the majority of audits are already being conducted to a high quality standard. BDO would urge the FRC to clarify what ‘step change’ and ‘driving up’ is required. Specifically, the FRC should clarify that they are referring to achieving an increase from 70%-90% grade 1 + 2As for FTSE 350. Whilst acknowledging that this ‘step change’ is not required across all firms, some of whom are currently achieving close to the 90% threshold.

Q1 Comments on regulatory approach

BDO agree that a primary objective for the FRC is to articulate what constitutes best practice we would therefore again urge the FRC to issue guidance in respect of the interpretation of the Audit Regulation and Directive (ARD), as adopted in the UK and to work closely with Regulators across the EU to introduce consistent interpretation across member states.

BDO remain concerned that the FRC should be sensitive in respect of wording used when writing to the Audit Committees following a review of the financial statements by the Corporate Reporting Review team. The fact that no action is being taken should not be taken as a ‘clean bill of health’ there may be improvements that can be made to the reporting even though action may not appear necessary and BDO would caution against undermining the efforts of auditors to advance continued improvements in clear and concise reporting. In writing to companies in these terms there is a risk that Audit Committees and Boards will consider no further improvements are required and be resistant to recommendations made by their auditors.
Q2 Are they areas of work where the FRC could reduce regulatory costs?

Whilst maintaining status as the competent authority responsible for audit firms and statutory auditors BDO would urge the FRC to utilise the RSBs as much as possible to monitor the SME market.

Q3 Comments on proposed projects and activities

The priorities set are significant in number and far reaching and whilst BDO appreciate the breadth of the FRC’s responsibilities we would welcome increased focus on SMEs; innovation in audit and investor stewardship. The profession needs to transform over the next five years to adapt to technological challenges and audit firms are investing heavily in new audit approaches to support both the audit committees’ and the investors’ need for greater insight into business operations that affect the financial stability and growth of companies and the market place generally. As the Regulator it is important that the FRC focus on supporting boards and audit firms achieve this. BDO would urge the FRC to use their influence on the international standard setters to develop auditing standards that support the audit firms’ innovation in approach.

In respect of the FRC’s plan regarding professional discipline BDO would urge the focus be on quality of the investigation and process rather than the cost. Plans to provide only copies of the investigation report and restricted supporting papers to experts could lead to a limitation in the scope of the defence and amount to a false economy. BDO would further urge that the FRC work with the RSBs to apportion responsibility for disciplinary cases with the FRC focusing only on public interest entities or issues of public interest.

Q4 Are the proposed indicators helpful?

The FRC have included a number of KPIs within their plan. When doing so it would be more meaningful if the FRC also stipulated the point from which they are starting. For instance the FRC have set a KPI that at least 90% of FTSE 350 audits will require no more than limited improvement. To be a useful benchmark it is necessary to understand what the current standard is. Similarly the ‘headline figure for female directorships in FTSE 350 companies’, what is the objective the FRC is looking to achieve and what is the starting point. Would the quality of those appointments not be relevant, it is easier to satisfy quotas through Non-Executive Directors but is this sufficient to broaden the skills set needed across the board?

Q5 & Q6 Comments on the proposed budget and funding

BDO would urge the FRC to monitor their costs carefully and take advantage of divesting responsibility, where they can, to the RSBs. BDO note the FRC’s comment that they will not increase the annual budget by more than the average increases in salaries across the sector. BDO would request the FRC take into account that not all businesses are in that position.

In respect of funding, considering the FRC’s wider responsibilities and planned activities such as investor stewardship, actuarial code and embedding culture in business BDO consider the FRC should look to rebalance their funding needs across a wider spectrum of contributors who benefit from the work conducted by the FRC.
Q7 Do you agree the proposed levy rates?

BDO have no comment on the levy’s charged to listed entities but would urge the FRC to reconsider the insurance and pensions levy.

If you would like to discuss any of the above, or have any questions relating to it, please contact James Roberts on 01293 591098.

Yours faithfully

BDO LLP

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