

Chartered Institute of Management Accountants

Response to FRC Draft Plan & Budget and Levy Proposals 2016/17

CIMA welcomes the opportunity to contribute to this consultation and supports the work of the FRC in its role of promoting high quality corporate governance and reporting to foster investment.

We note from the FRC Strategy 2016 – 2019 (published in October 2015) that the government has progressively withdrawn its contribution to the FRC's funding since 2009 and that from 2016 will no longer provide any direct funding. We also note the FRC's intention to derive funding for its role as the competent authority for audit regulation directly from the audit profession and that budget has been allocated proportionately for the commencement of this role in June 2016.

CIMA welcomes the FRC's focus upon:

- Corporate governance and culture;
- Investor stewardship and engagement; and
- Clear and concise corporate reporting that meets users' needs.

We also welcome the non-audit activity priorities:

- Best practice in governance;
- Embedding recent changes in reporting and assisting smaller companies with reporting;
- Investing in the Financial Reporting Lab; and
- Further development of IFRS.

These are consistent with CIMA's own objectives of promoting better run, responsible businesses, better corporate reporting and our commitment to integrated reporting. CIMA's Global Management Accounting Principles dovetail well with the FRC's non-audit priorities (the GMAP have been designated by the British Standards Institute as a publicly accessible document)

Regulatory Approach

1. Do you have any comments on the regulatory approach we are proposing for our new three year strategy?

2. Are there areas of our work where we could reduce the regulatory costs we impose without compromising the quality of corporate governance and reporting in the UK?

CIMA particularly welcomes the FRC's intention to reaffirm and promote the "comply or explain" principle and other regulation by principle as opposed to prescription, a regulatory stance that promotes continuous improvement and the intention to reduce regulatory burdens on businesses including the Regulators' Code.

We look forward to the new strategic stakeholder communications programme and new ways of communicating the outcomes of the FRC's work and the proposed greater transparency in the way the FRC operates.

CIMA also welcomes the intention to complete conduct investigations within two years of the passing of a formal complaint to the Executive Counsel.

Proposed priorities for 2016/17

3. Do you have any comments on the FRC's proposed projects and activities in 2016/17?

4. Are the proposed indicators helpful in assessing progress towards the FRC's objectives; and are there other indicators that should also be taken into account?

In relation to the indicators for the FRC's priorities, CIMA would welcome further clarification on how the effectiveness of the FRC's practical plans to realize these objectives will be measured.

With regard to the FRC's intention to assist BIS and develop strategic report guidance in the UK implementation of the Non-Financial reporting Directive; CIMA recommends that the FRC should continue to aim for consistency of approach with other holistic reporting frameworks such as <IR> when developing the strategic report guidance.

Under "Audit and Assurance" (P 16) the FRC proposes "a revised ethical standard for audit and *other public interest assurance engagements*". This links with the intention to improve the quality of reporting by small companies and will affect many accountants in public practice as so many more SMEs are now exempt from statutory audit. CIMA would particularly welcome some oversight activity on the part of the FRC, on the move by the larger audit companies to offer comprehensive accountancy and reporting services to the SME community.

We take particular note of the FRC's intention to consider the consequences of the post-ARD arrangements for its non-statutory oversight of the accountancy profession "and the disciplinary scheme we run for its members, including members of the accountancy profession in business in non-audit roles".

With regard to the penultimate bullet on p 14, CIMA would wish to emphasize that the research on the role and scope of preliminary reports must be consistent with the strategic report.

We particularly welcome that the FRC intends to publish an annual assessment of the quality of UK corporate reporting.

With regard to the final listed priority "relevant evidence of greater focus on the importance of company culture from surveys by market commentators", as the FRC will be aware, CIMA is partnering with the FRC on the culture project and we are very committed to its success.

Budget and funding

5. Do you have any comments on our proposed budget for 2016/17?

6. Do you have any comments on our proposed funding requirement for 2016/17?

We note that the budget for the audit regulation has been split out (ring-fenced). The table on p 21 indicates that the budget for accountancy disciplinary cases has been reduced from 1.2 to 0.8 million but the total budget has only gone down by 0.2 million. Given that the FRC has expressed its intention to link income and expenditure on audit related activities, CIMA would welcome an explanation of the implications of this differential to other contributors.

Similarly we would welcome a conversation about the seemingly disproportionate increase in the accountancy professional bodies' contribution (for accountancy cases and general contribution) – see table on p 23.

CIMA would welcome further clarification of the intention by the FRC to increase its reserves to secure its viability in line with its new role in audit regulation. In particular, we seek reassurance that the reserves will be built from contributions from the audit regulated community.

Proposed Levies 2016/17

7. Do you agree with our proposed levy rates for 2016/17?
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Until we see the final allocation of the professional accounting levy relating to CIMA it is not possible for CIMA to agree with the proposed levy's for 2016/17. There is clearly an additional audit regulation and monitoring burden and CIMA would not expect that to flow through to its levy.