

David Andrews
Head of Organisational Development
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

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By email to: d.andrews@frc.org.uk

Dear Mr. Andrews

Financial Reporting Council's (FRC) Draft Plan & Budget and Proposed Levies 2016/17

This letter sets out Deloitte LLP's response to the FRC's Draft Plan & Budget and Proposed Levies 2016/17 (draft Plan and Budget), issued for consultation in December 2015.

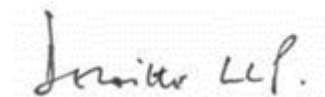
We value the FRC's annual consultation and find the document's structure clear and the groupings of Code summary, activity description and indicators helpful. We feel that the FRC's new structure is a positive. We also welcome the FRC's 'continuous improvement' stance, but recognise the challenge and cultural change required.

We recognise the role that the FRC plays internationally. We are supportive of a continued, and even increased, focus on this area to ensure that both the implementation of the Audit Regulation and Directive (ARD) in Europe, and the actions of other audit regulators internationally, lead to a strong audit profession that is more able to deliver audits of the highest quality.

We are not supportive of the proposed increase in core operating costs. At a time when organisations across the private and public sectors are working hard to manage costs, the FRC should endeavour to minimise substantial cost increases by looking to increase the efficiency and focus of its activities.

We include responses on most of the paper's specific questions below. Please contact David Barnes on 020 7303 2888 or djbarnes@deloitte.co.uk if you would like to discuss any of our points in more detail.

Yours sincerely



Deloitte LLP

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

Corporate Governance

- 1.1 Given the volume of changes in recent years, we agree with the proposed approach of no new changes to codes and standards, including to the UK Corporate Governance Code. This will give organisations a much-needed opportunity to take stock.

Professional Discipline

- 1.2 Regarding the implications of the ARD on accountancy disciplinary cases that do not involve audit, we would like the FRC to consult as soon as possible on the new arrangements for its implementation. It would be helpful if, as well as considering the implications for non-audit cases, the FRC also considers those cases that may not fall under the new Public Interest Entity definition such as those audits relating to AIM listed companies.

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

Corporate governance

- 3.1 We welcome the FRC's plans around - and focus on - culture and succession planning and consider that there should be a greater focus on such matters in annual reports.

Investor stewardship

- 3.2 We welcome the prospect of increased scrutiny regarding the Stewardship Code. At present, there appears to be a wide range in the quality of compliance. We hope that additional focus on this area will improve the communication channels between companies and investors. We also welcome the improving engagement with investors and the FRC's facilitation of dialogue between all parties in the ecosystem and believe that the FRC could devote more time and effort to increasing the level of quality investor engagement.

Corporate reporting

- 3.3 There was a flurry of corporate reporting publications in late 2015. While the various reports included useful messages, there was duplication and those issued just before Christmas came late for December reporters. We also note the reference to a future "*annual assessment of the quality of UK corporate reporting*" and that this will be different from the Corporate Reporting Review Annual Report. There is a risk that this could be duplicative, particularly where processes need to be established by companies to collect new or improved key performance indicators. The FRC's views on the UK's well-established strategic report requirements should be influential as the European Commission develops non-binding guidance on the Directive.
- 3.4 If the Non-Financial Reporting Directive comes into effect for periods beginning on or after 1 January 2017, it would be helpful if the FRC could issue guidance by the middle of 2016 to help companies prepare and plan.

Audit and Assurance

- 3.5 We are supportive of the FRC's objective of improving audit quality as measured by the AQRt results, but recognise that this is only one (important) measure of audit quality.
- 3.6 We note that the Draft Plan and Budget states that the FRC plans to "*review on a non-statutory basis some aspects of the bodies' regulation of their members in practice*". In view of the resource constraints on the FRC, we suggest that the FRC considers the extent to which it should continue to exercise non-statutory supervision of professional bodies, and consult on this.
- 3.7 We encourage early consultation on the remaining arrangements necessary for implementing the ARD. Clarity as to how investigation, discipline and sanctioning powers will operate under the revised legislative

framework that comes into force in June 2016 will be welcomed to ensure a regime which operates fairly and in the public interest.

- 3.8 We appreciate that the FRC has already been helpful in supporting auditors of SMEs with regards to proportionality. In view of the need to support justifiable confidence in audit at the smaller end of the market, whilst contributing to competitiveness and growth, we would urge the FRC to consider whether further guidance on proportionality for auditors of SMEs, under Article 26 of the revised Statutory Audit Directive, could be drafted even before EU endorsement of the relevant ISAs.
- 3.9 The implementation of IFRS 9 and audit of loan loss provisions will need to be particular areas of focus, and will include contributing to the IAASB's work on the audit of accounting estimates. Furthermore, the IAASB's project on the use of analytics in auditing is timely. The views of the FRC will again be important in this area, reflecting on whether standards or guidance need to change and suitable inspection approaches to respond to their increased use.
- 3.10 Finally, on the Local Audit and Accountability Act, we note that the law largely mirrors the old pre-ARD Companies Act audit regime and that to align more closely with the post-ARD Companies Act regime will require legislation (albeit this is outside the FRC's own remit) and work with the recognised supervisory bodies.

Actuarial

- 3.11 We welcome the plans to complete work on the new framework of Technical Actuarial Standards and the risk-based approach to actuarial standards and regulation and consistent activity across the FRC and the IFoA. Continued collaboration with the IFoA remains important and inter-relates with the upcoming consultation on independent oversight. It seems a sensible time to question, as the Draft Plan and Budget states, the necessity and appropriateness of this in light of regulatory changes and the introduction of independent standards. Ensuring the coherence of actuarial oversight with the rest of the FRC's activities will be important.

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?

Corporate reporting

- 4.1 We consider that the survey evidence of stakeholders' perceptions of key aspects of corporate reporting and governance in the UK is a vital piece of the jigsaw. In particular, the perceptions of investors and investor organisations should be treated as a critical part of the indicators. We suggest that the survey should also include some questions on dynamic reporting – what stakeholders believe should be included in the annual report and what should be included on a website, together with how frequently the information should be updated. We would be pleased to work with you on suggestions for appropriate questions to draw out this valuable information.
- 4.2 We believe that the FRC Reporting Lab could have even greater impact. We would encourage it to be bold in its ambition with a ruthless focus on 'Clear and Concise' and the medium term future of financial reporting given the significant advances in digital technology.

Professional discipline

- 4.3 If a two-year target is being set (which we welcome in terms of making the investigation phase more efficient) we think this should be included in the professional discipline section as a specific indicator - this would then be consistent with the other sections. Also, while a starting point has been specified for this target, an end point has not. Could the end point perhaps be defined as the date that the formal complaint is issued to the member or member firm?

- 4.4 As a more general point around the timeliness and length of disciplinary procedures, we believe that the FRC should speed up the investigative process to ensure matters are swiftly brought to a conclusion, so that the profession can learn lessons and move forward constructively.

5) Do you have any comments on our proposed budget for 2016/17?; and

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

- 5.1 While we support the FRC's ongoing focus on quality (and that this has some cost implications), we do think it is important that it does not significantly increase costs. Maintaining strong relationships with – and, where appropriate, delegating to - the professional bodies should prove helpful in this regard; likewise thoroughly assessing which projects will have the biggest cost impact.
- 5.2 Furthermore, while in overall terms the decrease in accountancy case 'offsets' the £1.5 million rebalancing (and nearly 14% increase in the professional bodies' general contribution to audit) for the year ahead, we presume that this will not always be the case and would be interested to understand how the funding picture will look in subsequent years.
- 5.3 Finally:
- a) We note a reduced level of detail in this year's budget and funding section compared to previous years (e.g. there was previously both a separate column for expected current year costs and expenditure, and information on what accountancy case costs comprised). We found more granularity around this useful; and
 - b) We are unclear whether the costs budgeted for non-audit disciplinary cases relate to the run off of ongoing cases. Going forward, we would expect the 'non-audit' costs to reduce considerably if these disciplinary matters no longer fall within the FRC's remit.