



28 March 2013

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Dear David

THE FINANCIAL REPORTING COUNCIL (FRC) DRAFT PLAN AND BUDGET 2013/14

Introduction

CCAB welcomes the opportunity to comment on the above consultation document issued by the FRC in January 2013.

About CCAB

CCAB's core purpose is to promote sustainable growth in the UK economy through the UK accountancy profession.

CCAB has five members – ICAEW, ACCA, CIPFA, ICAS and Chartered Accountants Ireland - and provides a forum for the bodies to work together collectively in the public interest on matters affecting the profession and the wider economy. The accountancy profession forms a central part of the professional and business services sector which contributes £166 billion to the economy each year (15% of UK GDP).

Professionally qualified accountants have a key role to play in the economy with over 240,000 accountants employed in the UK. CCAB's credibility stems from its insight into all areas of finance and accounting, from finance director and audit partner to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members work through the financial value chain in all sectors as key decision makers and business leaders within the UK and around the world.

Consultative Committee of Accountancy Bodies

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We hope that you find our comments on the specific consultation questions helpful:

1. Do you have any comments on the proposed priorities and engagement strategy outlined above?

While the Major Projects and Activities articulated in the Draft Plan represent themes on which the FRC could usefully focus its energies, the descriptions given are rather too generic. Some of the projects identified are activities we would expect the FRC to be carrying out as a matter of routine, for example to 'conduct thematic studies in response to emerging corporate reporting and audit issues, contributing to our influence over stakeholders through evidence and analysis' or to 'ensure our actions, including further work on emerging issues and revisions to codes and standards, are informed by robust evidence'. In addition, the six 'priority projects' identified in Section One cover the whole range of the FRC's responsibilities, and provide only weak focus. This impedes the prioritising of projects, because it suggests affording equal weight in the Plan to each of the six areas of responsibility. It might be better for the Plan to identify a limited number of specific and measurable achievements the FRC aims to make in priority areas. We do, however, appreciate that the FRC will need the flexibility to respond to as yet unidentified emerging issues that will inevitably arise.

For the foreseeable future, the IASB will retain the central role in Corporate Reporting, but national standard-setters will continue to be in a position to provide relevant input. We acknowledge, for example, that the FRC has produced a consultation paper on the issue of disclosure (a debate to which EFRAG and other European accountancy bodies have also contributed), and the IASB (which now has its own initiative on disclosure, but limited resources) welcomes the FRC's contributions. Therefore, we see the FRC's role as being a national standard-setter and enforcer (IFRS for SMEs, for example), in accordance with the powers provided to it by Government, but also a valued contributor to work undertaken at an international level. Initiatives by the FRC which support this role would arise from UK-specific issues (such as the influence of the financial sector) and common themes arising from its monitoring work (such as lessons to be learned from its reviews of 300 sets of reports and accounts - Priority project 3: Corporate reporting).

In addition, the FRC intends to contribute to international debates, such as that on disclosure mentioned above. This would be compatible with the FRC's Plan to focus on relevance to investors and global accounting standards (Priority project 3). In the case of audit (Priority project 4), we would like to see a similarly-stated commitment to co-operation with the IAASB in "getting the standards right" and understanding the public's expectations of auditor reporting.

The FRC's aim to grow its influence (according to its approach set out in Section One) appears to be more ambitious than would be implied by our above understanding of its role, and consequently, to have higher cost implications. For example, the FRC aims to conduct thematic studies as part of its activities related to regulation and audit quality (Priority projects 1 and 4) and to build an evidence base on stewardship by itself, rather than utilise research undertaken by other bodies (Priority project 2).

Whilst the FRC mentions (in its stated approach in Section One) that its plan to increase its influence is in accordance with responses to its annual stakeholder survey, we would assert that it is not always desirable or practical to take all of the steps proposed by survey respondents. In this case, there is a risk of unnecessary and maybe unhelpful duplication with the work of other bodies. This is apparent in the content of the section on 'Economic and market context' (Priority project 6). Certain other aims in this section and the following one ('Engagement strategy') are also expressed in such wide-ranging terms as to raise the question of whether their scope is over-ambitious (for example, the first bulleted paragraph in each of the sections).

We are concerned by the selection within the Plan of 'key stakeholder groups', namely: International, Europe, Regulators/Policy Makers, and Investors. It is important that in consultations and other interactions with stakeholders the FRC is perceived as being even-handed and having due regard for the public interest. This might not be the case if particular stakeholders are prioritised by virtue of being 'international' or 'European'. The FRC's stakeholder engagement strategy should aim to cover all of those affected by a particular proposal and treat all views with equality, judging them only by the relevance and merits of their arguments, so all views are properly compared and considered. We do not believe that the list of 'key stakeholders' has the right focus – it appears currently to identify only those the FRC is seeking to influence. In doing so it fails to acknowledge important constituent groups that are directly affected by the FRC's regulatory activities. If the FRC is to identify 'key stakeholder' groups within the document, we suggest that these should include the 'Accounting profession', 'Actuarial profession' and 'general purpose users and preparers of UK company financial statements'.

While it may not be appropriate to single out particular groups as 'key' stakeholders, we support the report's identification of the importance of the FRC's relationship with certain international and European groups. In particular it is imperative that the FRC continue the close relationship with the IASB that it has nurtured over the years on the basis of constructive challenge led by enhanced engagement. From this perspective it seems unfortunate that the Draft Plan suggests an approach to dealings with the IASB that could be viewed as confrontational. Working with the IASB to provide constructive criticism in the quest to get to better standards does not have to involve such an approach. We suggest that the FRC revisit some of the language and some elements of the proposals in the Draft Plan in this regard. We also note in this context that effective representation of UK constituents, which will involve engagement with all stakeholder groups, is likely to be seen as a major factor in demonstrating the FRC's credentials for IASB advisory forum membership. For this reason alone it is important for the FRC to be very clear about who its stakeholders are.

It would be useful to expand on the strategy to influence the global-standard setting bodies in the Final Plan. Fundamentally, we should like to see a commitment to global standards, acknowledging that the FRC will, on occasions, come up against international opposition. In summary, because FRC does indeed have great influence internationally, it is particularly important that it champions international standards while, of course, working to improve them.

It is difficult to appreciate from the Draft Plan the balance between the fresh approach (set out at the start of Section One, and evident under the various headings of 'Priority Projects') and the fundamental activities of monitoring and standard-setting (and indeed consideration of whether the standards set by the FRC continue to be appropriate). These core activities seem downplayed in relation to their importance.

We welcome the concept of the FRC adopting a three year Plan but suggest that more thought should be given to the detail in the two subsequent years of 2014/15 and 2015/16. This is particularly illustrated by the activity "Influence the outcome of the Draft EU Auditing Directive and Regulation" where activity is indicated in 2013/14 but not the two following years when this is probably very much part of the FRC's forward planning.

2. Do you have any comments on activities outlined in Section Two?

In addition to our comments on activities in response to Consultation Question 1 above, we have a number of specific comments:

Priority project 1: Regulatory activities

We regard the sum total of the activities listed here as "business as usual" and, in terms of outcomes, wonder how success will be determined. Also, it surely must be the case that the conduct of supervisory enquiries will be dependent upon a major market failure rather than a perceived certainty that can be factored into the FRC's business plan.

We continue to support the public interest intent of the Disciplinary Scheme but urge the FRC to better control expenditure and introduce a greater degree of financial accountability into this activity in terms of how cases are pursued, with appropriate public transparency for its actions in this area.

We support the FRC's aim of tackling its backlog of disciplinary cases, and making its disciplinary processes generally more efficient. We suggest that some clarity is provided about the meaning of the phrase "a stepped increase in the speed" in the context of a three year plan. We expect any increased costs in this respect to be exceptional, and to be reversed in 2014/15.

Priority project 3: Corporate reporting

CCAB supports initiatives that complement the regulatory work of BIS, as happened recently with respect to the reporting of executive pay.

Priority project 4: Audit quality and value

We believe that the FRC needs to be clearer as to whether it sees this area of activities as 'regulatory' or 'policy and market' driven. It is our belief that most activities fall within the latter description.

It would be informative for the FRC to explain how it will 'increase the focus' of its audit monitoring Plan, and why. We also believe that the section on investigatory initiatives should include a mention of collaboration with the IAASB.

We support the intention to respond to the Competition Commission's recommendations and to address the risks associated with audit market concentration in the first year covered by the Plan.

We note from the bullet points analysing the reasons for the budget increase that additional resource needs to be devoted to dealing with the new arrangements that will be required for local public audit as a result of the abolition of the Audit Commission. However, there appears to be no recognition of this work in the sections of the Plan dealing with priorities or major projects. We are concerned at the omission of this important extension to the FRC's regulatory role, which we understand will involve not only the monitoring of RSBs and RQBs and the oversight of rules and regulations for this activity, but also a wider role in monitoring audit quality. We believe that the Plan should clarify the FRC's intentions in this respect.

3. Do you have any comments on our Draft Budget 2013/14?

We note that the Draft Plan suggests an increase of 8.5% in the FRC's budget. Constituents are facing another year of very tough economic conditions. Budgets are at best frozen and delivery, including that for new and special projects, has to be carefully managed within these limited resources. We do wonder if such a proposed increase in spend is sustainable and request that the FRC re-examine its focus and delivery model for the coming year, adjusting its budget to more appropriately reflect the economic environment.

We have stated, under 1 above that certain stated aims within the Draft Plan appear somewhat ambitious, and there are associated cost implications attached to these aims.

The proposed increase in the budget for corporate governance, reporting and auditing provides a proposed additional resource, which is intended to enhance the FRC's ability to (among other things) regulate third country auditors. However, the regulation of third country auditors is not mentioned anywhere else in the Draft Plan and Budget.

We have commented above, in Section 2, on the FRC's plan for the regulation of local authority audit.

4. Do you have any comments on our proposed preparers levy rates for 2013/14?

We have no comments.

5. Do you have any comments on our proposal to align the FRC levy arrangements with the current UK Listing Regime?

We have no comments.

Yours faithfully

Michael D M Izza
Executive Director