



FRC CONSULTATION ON DRAFT PLAN AND BUDGET FOR 2024-25

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ICAEW welcomes the opportunity to comment on the FRC Consultation on Draft Plan and Budget for 2024-25 published by the Financial Reporting Council (FRC) on 15 December 2023, a copy of which is available from this [link](#). For questions or comments about this response, please contact ICAEW at john.boulton@icaew.com quoting REP 14/24.

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- investigate complaints and hold ICAEW firms and members to account where they fall short of standards;
- respond and comment on proposed changes to the law and regulation; and
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KEY POINTS

1. ICAEW welcomes the consultation by the Financial Reporting Council (FRC) on its Draft Plan and Budget for 2024-25, published on 15 December 2023. We note that during 2024-25, FRC intends to undertake a full review of its strategy and objectives, with a view to subsequently publishing a 3-year strategy, supplemented each year with an annual plan/budget. We request that our comments are considered as part of this strategic review too.
 2. We are grateful to FRC officials for their active engagement with ICAEW and its member firms in 2023 and during the recent consultation period. This dialogue was very helpful in helping ICAEW and its members with our own planned activity and budgets and we would welcome the continuation of these roundtables in 2024 and beyond.
 3. The draft 2024/25 budget represents an increase in the contribution that ICAEW is required to make to the Consultative Committee of Accountancy Bodies (CCAB) to fund the FRC's activities. The CCAB contribution increases by £1m (7.6%). While the rate of increase has slowed with the delayed timetable for conversion to ARGA, and we expect a pause in growth until legislation comes forward, this still represents a significant increase and is significantly more in real terms than the CCAB contribution five years ago in 2019/20.
 4. With the government not having been able to include establishment of ARGA in the current legislative programme we believe that the 2024/25 budget review necessitates more than a pause in growth plans. A more holistic review is now in order, taking the Secretary of State's remit letter of 22 November 2023 as a starting point and working systematically through the activities necessary to deliver on the remit. We appreciate that these matters may be reflected in due course in the Chief Executive's strategy review, but in supporting the budget for 2024/25 we believe they ought to be anticipated in the final plan adopted.
- A. Conduct a comprehensive review of existing FRC resources, projects and priorities in light of the current situation, where there is no commitment to the transition to ARGA in the legislative timetable.**

NEW DUTIES FOR 2024/25

5. Significantly, the remit letter introduces a new requirement to 'embed a growth duty across the FRC's work' and 'look actively at where rules and guidance are no longer proportionate and can be removed or streamlined'. These activities are not separately identified in the plan and this appears to be an omission. We expect the intent is that these new duties are pervasive to the FRC's work in 2024/25 and we believe that clarification is needed on how the growth duty integrates with the workstreams set out in the plan:
 - B. Include more clearly in the plan steps being taken within existing projects to**
 - i. embed the growth duty, and for**
 - ii. a programme of systematic post-implementation reviews of existing rules and guidance for effectiveness and proportionality.**
6. We would welcome further consultation with stakeholders on each of these workstreams.

Proportionality review

7. The remit letter also sets out the importance of the FRC seeking 'to strike the right balance of supporting continuous improvement, pursuing sanctions against those who flout the rules and acting proportionately and in the public interest'. Five years on from the commencement of the programme to establish ARGA, and with legislation not yet forthcoming, we believe this balance now needs considered attention in 2024. We have been strong supporters of the FRC's mission to drive up audit quality and believe good progress has been achieved in that mission.
8. Nevertheless, in our interactions with the FRC as a regulator we have increasingly been observing levels of resourcing out of proportion to the reasonable objective of the activity. We

believe the time has now come for a thorough review of activities and their resourcing to ensure that these are effective, proportionate and properly targeted at risk.

9. ICAEW member firms have highlighted that requests by the FRC for data etc have increased significantly in recent years, both in number and detail requested, resulting in additional costs and resource requirements. Complying with these requests adds additional costs to the firms which in turn are passed onto their audited entities. New auditing standards also add costs for the firms and often for the companies they are auditing as well. ICAEW, our member firms and, we understand, the audited entities themselves, recognise the valuable investment that has been made into audit quality and the quality improvements this has delivered. Nevertheless, at this point and with the FRC's renewed remit and focus on proportionality and the growth duty, we believe it is an appropriate time to step back and look holistically at the regulatory approach: where attention could valuably be increased, where the approach is appropriate in delivering desired outcomes, and where efficiency savings can be made. Reviewing all parts of the supervisory system in this way would provide a firm foundation for transition in due course for ARGAs while evidencing that value for money is being delivered.
- C. As part of a comprehensive review of existing FRC resources, projects and priorities, work with regulated entities to ensure that resources committed are proportionate to the objective for the activity and targeted at risk.**
10. Under the heading of proportionality, the FRC could also usefully explore how enhancements to non-financial reporting around resilience, fraud and internal control can be achieved in the absence of the expected secondary legislation. FRC/DBT had well developed the four major new areas of reporting promised in the feedback statement (Resilience Statement, Material Fraud Statement, Audit and Assurance Policy (AAP) and Distribution Statements). It is a pity that these valuable statements are not immediately being adopted, and we do not believe that work in these areas should simply be paused. The FRC could do valuable work in this area in 2024 to prepare the groundwork and examine how these statements could be delivered to maximum impact, whether the statements are introduced as planned through secondary legislation or whether some of the enhancements desired are achieved through existing measures.
- D. Include a project to lay the groundwork for companies to enhance reporting in the four major new areas of reporting promised in the feedback statement (Resilience Statement, Material Fraud Statement, Audit and Assurance Policy (AAP) and Distribution Statements).**

CORE DELIVERABLES

11. Taking each of the core deliverables from the remit letter in turn, from our perspective:

<p>Review and update the UK Corporate Governance Code promote good governance as a key component of company success</p>	<p>The recently revised Corporate Governance Code is a welcome step forward. Increasing the focus of boards on internal controls and managing risk should strengthen corporate governance overall and, in turn, boost investor confidence. However, without adequate powers handed to the FRC we worry that these revisions could lack the desired impact. Unfortunately, even with the upcoming guidance it may not be possible to avoid a Sarbanes-Oxley-style regime by the back door. More work may be needed by the profession and the regulator to avoid this.</p> <p>In its response to the Corporate Governance Code consultation in 2023, ICAEW expressed concerns that companies would have insufficient time to report on their internal controls and risk frameworks by the proposed deadline. We are pleased that FRC have listened to our calls and that of members in delaying the introduction of these requirements to January 2026, which should give companies enough time. However, the FRC’s decision not to run a public consultation or consult key stakeholders on the contents of the associated guidance is a missed opportunity. The gap in alignment with the revised G20/OECD Principles for Corporate Governance, especially in relation to its section on sustainability, could also have been addressed.</p> <p>E. In the absence of a public consultation on the Corporate Governance Code Guidance the FRC should organise an outreach and engagement campaign around the new Code and be open to revising/extending the guidance for feedback received.</p>
<p>Review and update the UK Stewardship Code to facilitate good engagement between companies, investors and stakeholders.</p>	<p>ICAEW looks forward to the opportunity to engage with the FRC on a revised UK Stewardship Code. We encourage the FRC to liaise closely with ICAEW and its member firms and we would be happy to convene roundtables as part of the consultation process.</p>
<p>Work to drive up the quality of audit, including through long-term engagement with the sector and action to detect and, where appropriate, hold to account shortfalls in performance</p>	<p>The core deliverable here is success in restoring trust in audit and corporate governance. That was the mission set out in the 2021 White Paper. We believe significant improvements have been achieved in reporting</p>

	<p>and audit quality over this period. At this point it would be helpful to have an objective benchmark to recognise the progress made and to enable future efforts to be refocused to where they can efficiently have the biggest impact, indeed the Brydon review recommended a progress review in 2025. We would therefore recommend a specific project in 2024 to lay the groundwork for this.</p> <p>F. In 2024 the FRC should measure progress against the central mission of the 2021 White Paper – namely the extent to which actions over this period have served to restore trust in audit and corporate governance.</p> <p>Entities, directors and auditors should all play their part in enhancing the quality of reporting, governance and audit, with the FRC calibrating its activities across the whole ecosystem, directing its attention based on evidence of risk. We believe that the Plan should make reference to this balanced focus across the eco-system.</p>
<p>Review non-financial reporting requirements, with the aim to simplify and streamline current requirements</p>	<p>The overall quality of non-financial reporting has improved in recent years, starting with the introduction of the strategic report in 2013. However, the complexity of the underlying legislative framework has also increased, and we have commented to DBT that it now requires rationalisation. We believe that this complexity has reached a tipping point, and risks compromising both the progress made to date and the UK’s position as a global leader in this space. Many of our members tell us that the Annual Report has become overly long and complex.</p> <p>ICAEW requested a ‘streamline, align, refine’ approach to developing non-financial reporting in its response to the call for evidence from the Department for Business and Trade (DBT) and we look forward to seeing in 2024 the outcome of the Call for Evidence. To be clear, there is much to be done to develop and enhance the UK non-financial reporting system and the FRC will have an instrumental role in this. A focused project from the FRC, and associated consultation around this would enable that development to continue apace.</p> <p>The framing of this project will clearly depend on the outcome of the DBT deliberations. From our perspective, ICAEW would like to see some urgent issues, which would significantly improve the quality of the non-financial reporting framework, being addressed in the shorter term while also laying the groundwork</p>

	<p>for a broader review of the framework over the longer-term. Urgent issues we would like to see addressed in the short-term include:</p> <ul style="list-style-type: none"> • Simplification and streamlining of existing reporting thresholds, including increasing the existing company size reporting thresholds (with the exception of the micro-entities’ regime). • Rationalisation of certain reporting requirements, particularly with regards to the directors’ remuneration report, to eliminate duplication and overlap of requirements. Duplication and overlap also exists between the directors’ report and strategic report, and the Non-Financial and Sustainability Information statement and the strategic report. <p>While the outcome on these two points depends on DBT’s conclusions, we believe that successful implementation of them calls for a subsequent FRC plan. The plan could be more informative on what the FRC envisages this will entail.</p> <p>G. Publish details of the expected FRC work around the non-financial review and enable consultation around the implementation of the DBT initiative to streamline, align and refine non-financial reporting.</p>
<p>Enabling companies to report on sustainability matters on a consistent and proportionate basis, by supporting the assessment of the IFRS Sustainability Disclosure Standards</p>	<p>The UK should show leadership on sustainability by aligning with ISSB standards and consulting on an ISSB standard for UK SMEs. The government should ensure interoperability of the wide range of reporting requirements across jurisdictions, wherever possible.</p> <p>ICAEW believes that using the ISSB standards will provide a golden opportunity to streamline the existing, and sometimes confusing, sustainability-related requirements within the UK reporting framework. However, as explained in our response to the Technical Advisory Committee (TAC) call for evidence, ICAEW experts have raised specific concerns to consider when hardwiring these standards into legislation.</p> <p>H. Extend project 5 in the plan to examine how sustainability related requirements in the UK framework could be streamlined.</p>

TRANSPARENCY AND STAKEHOLDER ENGAGEMENT

12. We would welcome **consultation with stakeholders on the forthcoming strategy review**.
 13. The recently formed Stakeholder Insight Group has been demonstrating its value, for example in its role in the Corporate Governance Consultation. We welcome the representation in this group of professional accountants in business but we note that there is currently no CCAB participation. **We believe that this should be addressed in 2024.**
 14. It is important to recognise that the FRC's funding has significantly increased in real terms, and we believe this should be accompanied by increased transparency about what the FRC will be using these funds to achieve and how the FRC will use its increased resources. The transition to statutory funding would have entailed the adoption of statutory guidelines around transparency, and, while this remains outstanding, we believe the FRC should act voluntarily to itself increase transparency around its activities, how budgets are allocated and how it has performed relative to budget. Indeed, we believe this is envisaged in Managing Public Money, which the FRC has voluntarily adopted. This is important as the level of resource ICAEW and its member firms needs to provide to support and interact with FRC activities has commensurately increased and we therefore have a greater need for effective forward planning.
- I. Following adoption of the plan for 2024/25 the FRC should provide greater granularity on its workplan, including a timetable for key planned activities.**

2024/25 PRIORITIES AND DELIVERABLES

15. We have set out below our detailed comments on each element in the workplan. As indicated in the table above, we are also conscious that some key activities implied in the remit letter are missing from the workplan and we encourage the FRC to reflect these in the final version adopted.

Regulatory standards

1. Development and maintenance of standards and codes, including UK GAAP (FRS 102), narrative reporting, UK Ethical Standard, audit & assurance standards, technical actuarial standards (TAS) and ASTM1, finalising the review of the UK Corporate Governance Code, Wates Principles, and the planned review of stewardship in collaboration with the FCA, DWP and the Pensions Regulator.	We agree these activities deserve priority.
2. International influencing of auditing, assurance and ethical standards, and significant contribution to non-financial reporting developments in the UK and internationally.	The FRC could play a bigger role in convening UK stakeholders to set and pursue clear objectives in the major International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA) standard setting projects. For IFRS the UKEB plays a valuable role in this regard through its Advisory Groups. A similar mechanism is needed for IAASB and IESBA.
3. Activities focused on improvements and innovation to support high-quality reporting (including in the value chain) and audit including addressing the needs	The Sandbox is important and it would be valuable to review its effectiveness in 2024.

<p>of the smaller and medium-sized entities, through use of the new ‘Audit Sandbox’, the government’s non-financial reporting review, and targeted engagement with academics and research organisations.</p>	
<p>4. Promoting the use of technology throughout our policy areas, through digital reporting and provision of taxonomies, and the implications for data and data governance, and delivering the Company and Organisational Data Explorer (CODEx) project.</p>	<p>We agree the FRC should promote the use of technology.</p>
<p>5. Undertaking the necessary policy work to develop a regulatory framework for sustainability reporting and assurance, including the continued influencing of international reporting, assurance and ethics and independence standards and their adoption for use in the UK and acting as Secretariat to the newly established Technical Advisory Committee to support the provision of high-quality and trustworthy information.</p>	<p>The remit letter refers to ‘assessment’ of the IFRS Sustainability Disclosure standards and ‘enabling companies to report’ ‘on a consistent and proportionate basis’. This appears to go beyond the project as defined here and implies inclusion of two important aspects:</p> <ul style="list-style-type: none"> • Public engagement in assessing the new standards for adoption in the UK. • The FRC playing a role in assisting the consistent and proportionate application of reporting. <p>In our letter to the FRC last year we recommended that the FRC prioritise ‘supporting the government’s ESG priorities by properly preparing companies for new carbon and other reporting requirements’. We believe this should continue to be given priority.</p>
<p>6. We will review our Framework and Principles for the Development of Codes, Standards and Guidance to ensure they are fully aligned with the FRC’s objectives, duties, and the government’s priorities as set out in the remit letter, including our Growth Duty.</p>	<p>We agree that it is important to review activities against the duties in the remit letter.</p>
<p>7. Monitoring and reporting on competition developments in the audit market and commissioning informal market studies.</p>	<p>Unfortunately, the number of auditors has dropped markedly over recent years, especially among sole practitioner RIs responsible for 0-5 audits. This has an impact on competition and seems at odds with the FRC’s objective to create a more resilient audit market through greater competition and choice. If the administrative and oversight burden on ICAEW increases the costs will increase for its member firms and may make registration for audit uneconomic.</p> <p>A more detailed and regularly updated plan including examples related to the growth duty, building capacity, in encouraging challenger firms and new talent into the audit market should be considered.</p>

Supervision

<p>1. Continue our forward-looking supervision of audit firms including Tiers 2 and 3. Identify priorities for each firm to improve audit quality and to hold them accountable for delivering them. Continue to build capacity and capability to deliver improved audit quality at the Tier 2 and 3 firms (through Scalebox, ISQM1, culture and risk and resilience).</p>	<p>No specific comments. These are core activities that are important to the FRC's business as usual functions.</p> <p>However, these should still be open for consideration when considering their forward-looking strategy and proportionality.</p>
<p>2. Registration of audit firms and responsible individuals who undertake PIE audit work.</p>	
<p>3. In AMS, assess the effectiveness of the application of the FRC's Ethical Standard and ISQM1/2. Assess the resilience of the audit firms and supervision (voluntary) operational separation. Develop an Audit Market Monitoring function.</p>	
<p>4. Deliver a full programme of high-quality AQR inspections, continue work on our Developing AQR project, and publish a report on major local audit quality inspection findings.</p>	
<p>5. Assess the quality of compliance of companies, LLPs and other relevant entities with relevant reporting requirements in annual and interim reports and accounts, while targeting companies in higher-risk sectors. Focus on a small number of areas of new reporting requirements and other areas of particular investor interest and where there is room for improvement in terms of compliance or decision-usefulness.</p>	
<p>6. Collaborate with the FCA in the monitoring of mandatory climate risk disclosures, additional reporting requirements expected during the plan period which will fall to CRR to assess, including TCFD, Companies Act Climate disclosures, UK Sustainability Disclosures Standards, Transition Plan Taskforce disclosures alongside potential extension of CRR's remit under C(AICE). Work alongside CG&S to monitor corporate governance disclosures. Continue to publish on a quarterly basis (with the consent of the relevant entities) the outcome of substantive challenges in an accessible form and a list of companies who receive no issue letters.</p>	
<p>7. Continue to build capacity and capability to embed the new supervisory strategy for the professional bodies, education and</p>	

<p>training for the audit and actuarial qualifications and CPD, pursue mutual recognition of overseas qualifications, maintain Third Country Audit regime.</p>	<p>in particular with reference to the restructured Professional Bodies Supervision team. The FRC staff are clearly talented and tenacious people but we request that in terms of the Recognised Supervisory Bodies (RSBs) and Registered Qualifying Bodies (RQBs) in particular the FRC avoid attempting to replicate or duplicate existing governance and controls e.g., work completed by external auditors, Audit and Risk Committees and Board responsibilities. Replication leads to, at a minimum, a duplication of effort and increased cost or regulation. Such FRC teams appear very well resourced and are larger than the RSBs and RSQs being questioned, while those being questioned are also charged with delivering the front line regulatory work. ICAEW is considering additional staff and budget as a result to meet the demands from FRC teams, which will result in additional costs for those being regulated.</p> <p>ICAEW welcomes FRC's increasing work to achieve audit Mutual Recognition Agreements (MRAs) with other countries which, post-Brexit, now seems to be gaining much needed momentum but where we'd like further progress with the EU.</p> <p>ICAEW would also recommend that FRC focuses more on being an improvement regulator by sharing best practice (such as convening more regular professional body roundtables) and less on "auditing" the RSBs and RQBs which must lead to diminishing returns after many years of doing this. It also takes staff away from operational work which may be counter-productive to quality improvement.</p>
<p>8. Deliver, with key partners such as DLUHC, NAO and CIPFA a plan to help reduce the backlog in local audit and, as Interim Shadow System Leader, advise on steps to put the local audit market on a more sustainable trajectory. Commence reporting annually on the state of the local audit system, continue development and implementation of the workforce strategy.</p>	<p>ICAEW has set out a clear vision for local audit that sets out our support for understandable financial reports, timely high-quality local audits, strong financial management and good governance, value for money and protecting the public interest. We have called for the abolition of the Key Audit Partner requirement to increase the ability of auditors to be able to move into the local audit market. However, almost all principal local authorities have revenues in the hundreds of millions a year, meaning that audit firms need to have sufficient scale to be able to conduct such audits.</p>

Enforcement

1. Using our enforcement powers effectively and efficiently by focusing our investigations and enforcement action on subjects (firms and individuals) for breaches and misconduct in the most serious or significant matters and highest priority areas of regulatory concern.	We agree these deliverables are core for the FRC to have a risk-focused, timely and proportionate enforcement regime. It is particularly important that the planned freeze on headcount does not have a detrimental impact on the timely progression of cases and KPIs and we believe this should be kept under continuous review. If required could FRC staff be redirected to where need is highest?
2. Continuing to ensure the proportionality and consistency of the approach taken to investigations, enforcement action, and sanctions in the interests of fairness and efficiency without sacrificing outcomes.	
3. Continuing to strive to meet the 2 and 3-year KPI targets of 50% and 80% respectively.	
4. Publishing case outcomes throughout the year and our Annual Enforcement Review, highlighting what good looks like.	

Corporate Services

1. Maintaining a sustainable non-statutory funding model, cascading the associated budget and value for money discipline (including planning and procurement) throughout the organisation.	We do not have any comments on this section.
2. Supporting the FRC's Locations Programme with excellent HR, Finance and Facilities advice.	
3. Bolstering our IT infrastructure to maintain high standards of stability and cybersecurity. Delivering Information Management projects in line with our strategy, addressing the highest risk areas first. Sustaining our approach to information and personal data privacy.	
4. Providing Data analytics, economic advice, impact assessment and research capability to enhance the quality of our regulatory insights and publications.	
5. Further embedding our workforce planning strategy, including through identifying skills gaps and succession planning, and developing our employee value proposition.	
6. Providing high-quality legal advice to all FRC teams and support the FRC's continued compliance with all relevant legal duties, and the complaints handling role.	
7. Embedding effective enterprise risk management, robust internal controls and a mature risk culture, including business contingency planning and testing.	

CEO division

<p>1. Leading on a revised high-level strategy for 2025 onwards.</p>	<p>We agree these are crucial projects to refocus and realign the FRC’s strategy and activities under new leadership and a refreshed remit.</p> <p>We hope there will be an opportunity for stakeholders such as ICAEW to contribute to the strategy review and for public consultation on the implementation of the growth duty and Smarter Regulation approach.</p>
<p>2. Delivering appropriate, organisation reporting of the FRC’s performance in meeting its Growth Duty and supporting policy development in the context of the government’s ‘Smarter Regulation’ approach.</p>	
<p>3. Executing improvements to our governance approach, including through taking forward actions from our external board performance review, streamlining conflicts of interest processes and enhancing opportunities for non-executives and senior advisors to contribute their skills.</p>	
<p>4. Delivering a focused yet impactful, integrated stakeholder engagement, public affairs and communications programme.</p>	
<p>5. Improving the alignment of all projects with our published project management framework, through the provision of tools, templates and training which are simple to use and easy to access.</p>	

BUDGET

16. We recognise that the suggested budget includes the full year costs of new recruits from the current year, additional costs related to Facilities such as the establishment of the Birmingham office and property move within London, and the standard civil service pay settlement. The increase in costs though related to the Financial Reporting Lab appear to go beyond such change and we ask that these are reviewed. Where there are one-off costs, such as related to office moves, for future budgets we would expect operating costs to return to previous levels or potentially to a lower level as the FRC looks for cost effective premises in an environment where working from home is now more common.