



DRAFT ANNUAL PLAN AND BUDGET 2026-27 CONSULTATION

Issued 6 February 2026

ICAEW welcomes the opportunity to comment on the Draft Annual Plan and Budget 2026-27 Consultation published by the Financial Reporting Council (FRC) on 15 December 2025 a copy of which is available from this [link](#).

We recognise the continued progress the FRC is making against its strategic objectives and stakeholder outcomes, and we welcome the emphasis on contributing to the government's growth agenda through reducing unnecessary regulatory burdens. We also welcome the 'inflation only' increase in the FRC's budget, which helps maintain cost discipline while supporting the organisation's ongoing work.

The audit market and ecosystem are in a very different place from the time of Carillion in 2018. All actors – firms, professional bodies and the regulator – have stepped up to focus on improving audit quality, firm governance and market resilience. The final step should have been for legislative action contained within the planned Audit Reform and Corporate Governance Bill to give the FRC as regulator all the statutory powers it needs to achieve its objectives.

The announcement on 20 January that the government intends not to take forward the Bill is therefore a disappointment and creates some uncertainty. We welcome the Minister's comments that the government still aims to put the FRC on a proper statutory footing as soon as parliamentary time allows, but the lack of clarity over the timeframe and scope of such legislation is a material factor which increases risk and hence uncertainty over the nature of the FRC's budget.

The Government's announcement only took place 17 days ago, well into this this consultation process's timetable. We think it is reasonable for the FRC to consider how this announcement will impact the FRC's workload, projects and the exercise of its powers. The absence of legislation should not alter the FRC's mandate to strengthen investor confidence, support the audit market and underpin long-term economic growth. Indeed, it makes clear and consistent measurement of progress against these objectives all the more valuable. But it is important that stakeholders understand how the organisation will be equipped to deliver its statutory responsibilities, now that these will be more limited than had been expected.

Providing this clarity at the earliest opportunity will help firms plan and encourage greater certainty. The FRC should consider publishing an interim plan, ahead of the usual annual cycle to communicate this. Such a plan could cover: what has changed in the FRC's mandate; what that means for 2026/27 priorities; and high-level implications for budget and headcount. Stakeholders will expect timely consultation on material regulatory changes that affect regulatory approach and/or funding.

As noted in our response to [The FRC 3-Year Strategy 2025-28 and Annual Plan and Budget 2025-26](#), further detail on how the FRC intends to deliver the actions and major projects set out for 2026-27 would also be helpful. Firms need sufficient visibility to plan for, and respond to, a significant volume of regulatory activity and new projects. The limited operational detail hinders the ability to do this effectively and proactively and causes ambiguity understanding how activities relate to both the FRC's objectives and governments growth mission.

In addition, greater clarity on planned work relating to Small and Medium-Sized Enterprises (SMEs), the forthcoming voluntary sustainability assurance register, and the modernisation of corporate reporting would be welcome, particularly in relation to scope and expected impacts. These are all areas with the potential to strengthen investor confidence and support economic growth. Given that work in these areas is continuing from previous years, they would benefit from more detailed explanation.

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KEY POINTS

1. The FRC's Plan and Budget were developed and published prior to the government's announcement that it would scrap the Audit Reform and Corporate Governance Bill, which was fundamental to the FRC's future role and direction. As a result, many of the assumptions underpinning the Plan and Budget may now not proceed.
2. Reviewing the Plan and Budget in a context that is materially different from that in which it was drafted therefore risks being of limited value. It is highly likely that the document will require significant revision to reflect a new operating environment, the details of which were neither known at the time of drafting nor are yet clear. In light of this uncertainty, an interim report or updated plan in a few months' time, once there is greater clarity on the FRC's future remit, may well be helpful.
3. The government's announcement has created a number of unanswered questions that the current Plan and Budget was never designed to address and is therefore not well equipped to answer in its present form. Although, we engaged on relevant topics in this response, it is highly likely that the document will require some revision to reflect the new context. We appreciate that the annual budget cycle needs to continue, and therefore suggest that a commitment to publish an interim plan is a practical means of providing the transparency stakeholders expect. Such an update should cover: what has changed in the FRC's mandate; what that means for 2026/27 priorities; and high-level implications for budget and headcount.
4. In previous budgetary cycles, the FRC has increased its headcount and expenditure in anticipation of the transition to the Audit, Reporting and Governance Authority (ARGA). As the FRC's Annual Report 2019/20 stated: *"[This] financial year saw the beginning of a period of significant change for the FRC as we laid the foundations for the transition to the ARGA. The new authority will have stronger powers and the ability to respond more quickly and effectively to emerging problems. It will therefore require additional professional staff and more resource."*
5. However, in the light of the government's announcement 17 days ago, circumstances have changed. We recognise that there are a number of important projects that can and should continue regardless of a lack of transition to ARGA and without a new legislative footing, and that these core activities should not be disrupted. That said, it would be helpful to understand how the FRC now views its responsibilities in these areas, and their priority in the new context.
6. Indeed, this is an opportunity for the FRC to refocus on its core purpose, improving audit quality and corporate reporting, avoiding the regulatory creep or overstretch Sir John Kingman had highlighted in his report. We agreed with the comments made by the FRC's CEO on 14 January 2026, before the government's announcement, in which he outlined his organisation's five priorities for supporting economic growth:
 - underpinning investor confidence in UK plc
 - reducing unnecessary burdens on business while maintaining high standards
 - developing deep insight into the markets we oversee so our regulation is based on evidence and expertise
 - identifying future trends and innovations to support the health of the markets we oversee
 - supporting the skills and resilience of the professions we regulate

A more concentrated remit would help ensure that resources are used effectively and that delivery in these critical areas is strengthened.

2025-28 STRATEGY: DELIVERY PROGRESS

7. Delivery of the FRC's 2025-28 Strategy appears to be progressing well as it enters its second year, with improvements across the FRC's strategic objectives including in audit supervision, enforcement and stewardship.
8. The audit market and ecosystem are in a much-improved state compared to 2018 when the crisis relating to Carillion arose. As the FRC itself says in its Annual Review of Audit Quality 2025: "*We welcome the work being undertaken by firms in the market, including operational separation, improvements to audit firm culture, and the adoption of the International Standard on Quality Management (UK) (ISQM)*".
9. We strongly welcome the shift towards a more collaborative, proportionate and outcomes-focused approach, including developments in audit supervision, enforcement processes and stewardship. Progress in reviewing supervision and enforcement models, alongside continued focus on the UK Corporate Governance and Stewardship Codes, has supported confidence while maintaining audit quality and high standards.
10. We commend work to strengthen market effectiveness and resilience and support the evolution of audit supervision towards greater reliance on firms' systems of quality management, proportionate oversight for smaller firms and targeted activity to support SME auditors and competition in the audit market.
11. We emphasise the importance of proportionality being consistently applied and clearly evidenced across firms, not merely articulated in intent. This is especially critical for smaller firms and less complex entities, where regulatory burden and supervisory approach can have a disproportionate impact, potentially discouraging participation in the PIE audit market and countering the growth mission to reduce unnecessary burdens.
12. Work to engage on emerging issues such as the use of technology and AI in audit is also important in maintaining trust and future-proofing the profession. A greater focus on these technologies in the upcoming years would be valuable, with clear definition and KPIs.

DELIVERING IN 2026-27

13. The Plan sets out the FRC's purpose: to serve the public interest and support UK economic growth by upholding high standards of corporate governance, corporate reporting, audit and actuarial work. This provides the framework for delivery in 2026-27.
14. We note that progress has been made in all of these areas. Audit quality has significantly improved, as seen by the annual audit firm inspection and Audit Quality Review results 2025 alongside other indicators. However, further work remains to continue developing a regulatory model that is proportionate and effective across the segmented audit market. A number of the activities set out for the current year are intended to address this, including work to evolve audit supervision and enforcement approaches, embed proportionality more consistently, and better reflect differences in firm size, complexity and risk profile. Effective delivery of this programme will be important in demonstrating how the regulatory framework can support high standards while operating proportionately across different parts of the market. In this context, the five major projects planned for 2026–27, alongside business-as-usual activity, present an important opportunity to continue improving outcomes and advancing delivery of the 2025–28 Strategy.
15. We welcome that several of our recurring asks have been met, most notably the predictable consultation timetable for 2026, which improves planning certainty for stakeholders, moves towards a regular consultation schedule. We also welcome the restraint on overall budget, which helps avoid unnecessary cost increases for levy payers, and the stronger emphasis

on supporting smaller audit firms alongside more proportionate supervision across the market.

16. That said, we would still like to see further improvement in budgeting/planning transparency, in particular, programme-level budget granularity and a clearer line-of-sight from spend to outcomes, as we have highlighted in our previous representations. In REP 14/24, we asked for greater transparency about how the FRC allocates budgets and how it performs relative to budget, so levy payers can plan effectively and assess value for money. In REP 15/25, we also called for more detail and KPIs so stakeholders can hold the FRC to account for delivery, with clearer forward visibility.
17. Stakeholders will need clarity on how the current level of delivery ambition will be maintained, given the recent government announcement, how the budget will be adjusted to reflect the change in mandate, and how resources will be redeployed. Timely transparency is needed to provide certainty to levy payers. It would be unhelpful for stakeholders to wait until December 2026 to understand how the FRC's plans and future budget projections will be affected.

STRATEGIC OBJECTIVES

Objective 1: The standards and expectations we set will enhance corporate governance, corporate reporting and investor stewardship in a manner that supports UK economic growth and investment.

18. While we broadly support the direction of travel and the core activities set out under Objective 1, there are several areas we expected to receive greater emphasis:
19. High-quality governance and stewardship are essential to maintaining investor trust and ensuring robust reporting frameworks. We recognise the FRC's work to embed the revised UK Corporate Governance Code, maintain UK Accounting Standards, and contribute to international standard-setting, including chairing the IAASB Going Concern Task Force and supporting the development of global sustainability assurance standards, as alignment of global standards with UK priorities remains critical for competitiveness.
20. We note that continued enhancement of governance and reporting standards will require broader system-level support. Many stakeholders had expected the establishment of ARGAs, with a strengthened statutory footing, to provide this foundation. With this no longer proceeding, at least in the short term, it is now critical for the FRC to set out how progress in this area will be maintained and how a coherent, joined-up approach to reform can be delivered within the constraints of the existing legislative framework.
21. We note that corporate reporting is covered only briefly in the Plan, despite 2026 being the first year of application for the revised UK Accounting Standards, including FRS 102 and FRS 105. This represents a substantial change for many preparers and their advisers, and we would expect significant implementation, outreach and engagement activity during 2026–27 to support consistent and proportionate application in practice.
22. In addition, in the light of the government's announcement in October 2025 regarding Modernisation of Corporate Reporting, in which it highlighted its intention to pursue further opportunities to reduce business burden and launch an ambitious consultation covering the whole of the Annual Report and Accounts later this year, we would have expected greater prominence given to this matter in the FRC's budget.
23. Given the scale of these changes, the Plan should more clearly signal the need for post-implementation engagement and learning. Effective standard-setting does not end with publication; it requires ongoing follow-through to ensure the standards operate as intended. This includes outreach to preparers and auditors, identifying practical issues that arise, and capturing lessons learned to inform future periodic reviews. The Plan should set out how the FRC intends to support implementation of the revised UK Accounting Standards in 2026–27, including outreach priorities and how feedback from early application will be gathered and used.

24. Additionally, although the Plan mentions the development of a voluntary sustainability assurance provider registration regime from 2026–27, it provides comparatively little detail on the wider sustainability-related work. Given that the proposed assurance register is expected to become a central component of the UK’s monitoring and oversight framework for sustainability assurance and falls within the FRC’s remit, greater coverage in this area would have been expected.

Objective 2 regulation of accounting, audit and actuarial work will set and expect high quality by those responsible and deal effectively and fairly with cases where there are significant or serious shortcomings.

25. As part of the government’s wider growth agenda, the removal of unnecessary regulatory burdens is an important priority. Proportionate regulation that supports high standards while avoiding undue complexity or cost is essential for maintaining confidence in the regulatory framework and enabling firms of all sizes to operate efficiently.
26. We welcome the establishment and development of the FRC’s Innovation and Improvement Hub, particularly its focus on advancing innovation, enhancing quality and strengthening market resilience. Initiatives such as *Building Capability for Smaller Firms* are positive steps towards increasing regulatory certainty and supporting a more accessible and competitive market.
27. However, further clarity is needed on what “outcomes-based regulation” will mean in practice. The current wording is broad, and without additional explanation there is a risk that ambiguity leads to uncertainty for firms and practitioners. In particular, it would be helpful to understand:
- how “desired outcomes” will be defined and assessed;
 - how this approach will interact with existing regulatory requirements; and
 - how outcomes-based supervision will support proportionality, especially for smaller firms.
28. Clearer articulation of the practical implications for the profession would enable firms to anticipate regulatory expectations, adapt processes where necessary and support high quality delivery.
29. We note reference to SMEs via Support for SMEs in the areas in which it regulates as one of the FRC’s five major projects for 2026–27. Project portfolio also includes helping to build capabilities within smaller audit firms, recognising their importance to widening audit market resilience.
30. In addition, we note that the scale and intensity of enforcement activity set out in the Plan has implications for delivery within the FRC’s current resourcing framework. Investigations and enforcement activity, particularly in cases involving significant or serious shortcomings, are inherently resource-intensive and require sustained specialist capability. Much of the FRC’s recent organisational build-up was undertaken in anticipation of the transition to ARGAs, and in light of the decision not to proceed with audit reform legislation, it would be helpful for the FRC to explain how those resourcing assumptions have been reviewed and recalibrated to reflect the current context.
31. While the FRC’s Draft Plan and Budget 2026-27 acknowledges SMEs, it does not yet reflect the scale, depth or maturity of the work already undertaken on SME audits, nor the repeated and detailed concerns raised by stakeholders. Given the central role SMEs play in the audit market and wider economy, the level of focus and specificity in the plan feels disproportionately light. With significant evidence gathered through the FRC’s SME audit market study and sustained stakeholder engagement, we want to see clearer objectives, milestones and outcomes specifically focused on SME audits and the firms that serve them. Strengthening this aspect of the plan would better align it with the FRC’s stated objectives on growth, proportionality and market resilience.
32. In this context and given the longstanding challenges around proportionality and sustainability of SME audits highlighted through the market study, there would be value in

the Plan being clearer on how the FRC intends to respond to that evidence in practice. This could include, for example, piloting or further structured exploration of alternative approaches to auditing less complex entities, with appropriate safeguards, as part of a broader package of measures to support audit quality, market resilience and choice in the SME audit market.

Objective 3 We will have a deep understanding of the audit and actuarial markets we oversee, and by being a future-focused organisation we will identify and prepare for opportunities and challenges on the horizon.

33. Objective 3 remains broad, and although it covers a wide range of important areas, the activities proposed for 2026–27 reinforce this challenge. While the Plan sets out a wide range of initiatives spanning innovation, digital reporting, audit qualifications, sustainability reporting, economic impact assessment and general research into market trends, it is not always clear how these activities fit together, or how they collectively deliver the objective.
34. This breadth makes it difficult not only to engage meaningfully with the proposed work, but also to assess how success will be measured by the end of the period as they all have very different success metrics. Given the scale and pace of change to be expected from the adoption of AI – and how widely accessible this technology now is – this objective would benefit from being more precise.
35. A strong and well-functioning audit and corporate reporting market depends on sustained investment, innovation and capacity. In this context, it would be valuable for the FRC to continue to deepen its understanding of market trends, including patterns of investment into audit firms, technological adoption and the factors influencing market entry and expansion.
36. Professional and business services are a strategic growth sector for the UK economy as part of the Modern Industrial Strategy, and continued investment, particularly in technology and data capabilities, including those required to respond to advances in AI, will be critical to maintaining the UK’s global standing. The FRC therefore has an important role in supporting a regulatory environment that underpins market attractiveness and resilience, including in the PIE audit market.
37. In this regard, greater transparency on how regulatory and supervisory approaches are evolving, and how they are expected to support competition, capacity and entry by challenger firms, would help stakeholders assess whether conditions in the market are improving and support confidence in future investment.
38. As noted in previous representations, the FRC should publish an explanatory document on the operation of its market intelligence function and how intelligence is used to identify and respond to risks. This can be achieved by bringing together existing analysis and publications into a regular Market Resilience Report, drawing on its work on audit quality, market competition, capacity and supervision. Such an approach would provide stakeholders with a more coherent and forward-looking assessment of risks and vulnerabilities across the audit and corporate reporting market

2027-28 FOCUS

39. We welcome the FRC’s forward looking emphasis in the final year of its 2025–28 Strategy. We support the areas identified for continued focus and recognise the importance of maintaining momentum on reforms already underway.
40. A key priority we strongly agree with is the continued development of Mutual Recognition Agreements (MRAs). We continue to highlight the absence of robust Mutual Recognition of Professional Qualifications (MRPQ) frameworks, and the impact this has on global auditor mobility and the UK’s international competitiveness. The lack of enforceable MRPQ provisions in current trade arrangements restricts UK professionals’ ability to access international markets and exacerbates post Brexit recognition gaps, particularly within the European Economic Area creating significant barriers for auditors and other regulated professionals. We therefore support the FRC’s commitment to broadening MRAs as a means of enhancing cross border audit recognition, reducing barriers to practice, and

strengthening the UK's position in global markets. For maximum impact, we would urge the FRC and government to focus on the large global players and economic blocs, such as the EU, China, India, the EU and Saudi Arabia and Middle East.

41. We also agree with the FRC's continued focus on the future of the Audit Qualification. Ensuring that the profession remains attractive and that the pipeline of future talent is secure is essential for sustaining audit quality and supporting the long-term viability of the regulated audit profession. This becomes increasingly important as the profession adapts to technological change, and the broader demands placed on auditors.
42. We would welcome the opportunity to engage with and support the FRC in this work, including to help ensure that any changes strengthen, rather than deter, entry into the profession and continue to support high-quality, accessible qualification routes.
43. While the FRC's strategy sets out intentions to support UK economic growth through more proportionate, targeted regulation, we note that greater clarity is needed on how supervisory reforms particularly the Future Audit Supervision Strategy (FASS) and the wider burden reduction agenda will translate into tangible growth outcomes. Further detail will be essential to understand how these changes will deliver measurable benefits for the economy, the market, and the profession. We look forward to engaging with the FRC as this work progresses and to seeing how these ambitions are operationalised in practice.

OPERATIONAL REQUIREMENTS & BUDGET

44. With staffing levels remaining static and the 2026–27 budget increasing by 2.9%, the uplift appears to reflect inflationary pressures only and was reasonable at the time of publication. However, considering the Government's decision not to proceed with ARGAs, it is now essential that the FRC reaffirms its emphasis on efficient resource deployment, strong cost control and demonstrable value for money.
45. Greater transparency on how staff resources are allocated between business-as-usual activity and time-limited project work in 2026–27 would also be beneficial. This would provide stakeholders with greater confidence that core regulatory functions and new initiatives can both be delivered effectively, and that performance and timeliness will be maintained.
46. While the Plan does not set this out explicitly, the resourcing assumptions for audit firm supervision imply a relatively high level of supervisory coverage per PIE audit firm. Based on the number of PIE-registered audit firms and the stated size of the supervision function, this suggests an average supervisory headcount of around five staff per firm, although we recognise that resources will not be allocated on a simple per-firm basis.
47. In this context, it would be helpful for the FRC to explain how supervision resources are deployed, including how intensity varies by firm size, risk profile and market role, and how this model supports proportionate, risk-based supervision. Greater transparency on the supervisory operating model would help stakeholders understand how this level of resourcing translates into improved audit quality outcomes.

UK ENDORSEMENT BOARD

48. We acknowledge that the UK Endorsement Board's (Draft) 2026/27 Regulatory Strategy consultation is running concurrently, and although its 2026/27 budget is incorporated within the FRC Plan and Budget, we will be submitting our response to the UKEB consultation separately but ask that it is considered alongside this response for consistency and alignment.