



Financial Reporting Council

Plan 2009/10
including
supporting
information

APRIL 2009

The Financial Reporting Council

The Financial Reporting Council is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance. In pursuing this aim we contribute towards the achievement of the following outcomes:

Corporate governance – UK companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.

Corporate reporting – Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.

Auditing and related services – Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view, and users of audit-related services can place an appropriate degree of reliance on the reports provided.

Actuarial practice – Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.

Professionalism of accountants and actuaries – Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.

The FRC has also made commitments about its own **Effectiveness** – An effective, accountable and independent regulator, operating in the public interest and actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.

The decision-making bodies are the FRC Board and the Operating Bodies:

The Accounting Standards Board issues accounting standards for the UK and Ireland but, with the move to IFRS, is increasingly focussed on influencing the setting of standards by the IASB.

The Auditing Practices Board issues standards and guidance for auditing, for the work of reporting accountants in connection with investment circulars, and for auditors' integrity, objectivity and independence. It influences the setting of international standards on auditing by the IAASB.

The Board for Actuarial Standards sets technical standards for actuarial practice.

The Professional Oversight Board provides independent oversight of the regulation of accountants and actuaries by their respective professional bodies. It provides statutory oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies, and monitors, through the Audit Inspection Unit, the quality of the auditing function in relation to economically significant entities.

The Financial Reporting Review Panel reviews company accounts for compliance with the law and accounting standards.

The Accountancy and Actuarial Discipline Board is the independent investigative and disciplinary body for accountants and actuaries in the UK.

The Executive, led by the CEO, provides support to the Board and to the Operating Bodies.

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One – Introduction

The Financial Reporting Council is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

We promote high standards of corporate governance through the Combined Code, but do not monitor or enforce its implementation by individual boards. We set standards for auditing and actuarial practice and for specific aspects of financial accounting. We monitor and enforce accounting and auditing standards for listed and other major public interest entities. We also oversee the regulatory activities of the accountancy and actuarial professional bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

This paper sets out our Plan for 2009/10. It is based on our Regulatory Strategy which explains our role, responsibilities, governance and accountability. The Strategy sets out our regulatory approach and our approach to setting our priorities, which is based on our Strategic Framework. The Framework defines the outcomes which we believe that we and our stakeholders should be working towards to promote confidence in corporate reporting and governance in the UK. The Regulatory Strategy was updated in April 2009 and is available on our website at <http://www.frc.org.uk/about>.

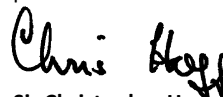
The tougher economic conditions mean that the risks to confidence in corporate reporting and governance are higher than they have been for some years. We recognise that implementing high standards of reporting and governance is more difficult in times of economic stress but in our view it is vital when the number and size of corporate failures are likely to increase. We believe that the risk of failure is likely to be higher for organisations which do not implement high standards of governance, do not apply strong internal controls, and do not keep the market adequately informed about business activities, risks and uncertainties through their financial statements and other reports.

In 2008/09 we issued updates for audit committees, preparers and actuaries on the key questions they might need to address. In 2009/10, the FRC will continue to review and raise awareness of the risks and issue further updates as necessary. We will review market practices in accounting and auditing, and take enforcement action where appropriate. We will consider the impact of our standards in the light of the tougher economic conditions and will, in particular, review the content and application of the Combined Code.

In preparing our Plan in this period of heightened risk, we have sought to take into consideration both the impact of current economic conditions and the medium-term issues affecting corporate reporting and governance, recognising the uncertainty surrounding both the short and medium terms. The Plan reflects our stakeholders' comments on the judgements we have made about our priorities for 2009/10 and on our medium-term priorities.

We will continue to operate on the basis of our commitment to the principles of good regulation. We have been able to identify modest reductions in the total amount which we need to raise from our levy payers compared to the initial proposals which we published in December 2008. Our budget will result in an increase of 5% in our core operating costs in relation to corporate governance, reporting and accounting to £12.5m compared to £11.9m in 2008/09. We have increased our contingency allowance to £0.5m in 2009/10, from £0.3m in 2008/09, to provide an additional degree of flexibility to respond to the heightened risks in confidence in corporate reporting and governance. In relation to actuarial standards and regulation core operating costs will increase by 4% to £2.3m compared to £2.2m in 2008/09.

We will implement our revised funding arrangements which we consulted on last year. We will publish our finalised levies for 2009/10 in May 2009.


Sir Christopher Hogg, Chair


Paul Boyle, Chief Executive

Two – Plan 2009/10

The key themes of our work in 2009/10 will be to:

- Influence market participants to meet high standards of reporting and governance through a combination of measures to raise awareness of major risks, monitor corporate reporting and governance practices, and take enforcement action where appropriate.
- Influence legislators and international standard setters to encourage a proportionate and principles-based approach which promotes high standards of corporate reporting and governance.
- Influence international regulatory authorities to encourage effective co-operation.

2.1 Major risks and activities and projects in 2009/10

In developing our annual Plan we focus on the major risks to confidence in corporate reporting and governance based on our assessment of the likelihood that they may materialise and their potential impact. Our planned major activities and projects represent our response to these risks and are intended to make a targeted and proportionate contribution to the achievement of confidence in corporate reporting and governance, taking into account the role of market participants and other agencies.

We recognise that current tougher economic conditions have significantly increased the corporate reporting and governance challenges for boards, preparers of accounts, auditors and actuaries, and that we are publishing our Plan for 2009/10 during a period of volatility in the markets and increased uncertainty in the economy. During this period, risks to confidence in corporate reporting and governance are inevitably heightened.

Table 1 on page 3 summarises what we believe to be the most significant risks arising directly from current conditions and our related major activities and projects for 2009/10. The risks relate to the implementation of high standards of reporting and governance by boards, preparers, auditors, accountants and actuaries. We will keep under review the implications of tougher conditions in implementing these activities and projects. We recognise the potential need for flexibility in our work plan to take account of emerging issues as they arise.

There are a number of significant risks to confidence in corporate reporting and governance which do not arise directly from the tougher economic conditions, but some of which are heightened by these conditions. Table 2 on pages 4-6 summarises what we believe to be the other major risks to confidence in corporate reporting and governance. The two most significant of these risks are the risks to achieving the goal of an effective set of global accounting standards, and the risks arising from the high level of concentration in the audit market. We have shown additional risks which may emerge beyond 2009/10 and how they may be relevant to planning future activities and projects.

We believe that effective action will be taken to respond to most of the risks we have identified. However, there is in our view one significant risk, arising from the high degree of concentration in the audit market, which – although progress is being made to address it – is likely to remain significant in the medium to long term.

Table 1 – Tougher economic conditions: Significant risks and our related major activities and projects for 2009/10

Risks	FRC's major activities and projects
Strategic Outcome One - Corporate governance	
UK companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.	
During a period of volatility and increased uncertainty, boards may find the assessment and management of risk particularly difficult.	Company boards have the primary responsibility for addressing these risks.
Providing adequate information about governance practices may be significantly more challenging for boards in the current environment.	
Strategic Outcome Two - Corporate reporting	
Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.	
Current economic conditions may make it more challenging for directors to prepare financial statements which comply fully with the requirements of accounting standards and which show a true and fair view.	Review a risk-based selection of annual and interim accounts and directors' reports. Reviews will focus on the banking, retail, leisure and travel, commercial property and house-building sectors and others which derive significant revenue from the provision of business services such as advertising, media, recruitment and technology.
Current economic conditions may increase the risk of fraud in preparing financial statements.	Keep under review the guidance to audit committees and directors and issue further guidance if appropriate.
During a period of volatility and increased uncertainty, the challenges for directors to describe effectively companies' business models and business risks may increase.	Review narrative reporting in the light of the business review requirements of the Companies Act 2006 and review the need for additional disclosure requirements relating to business models.
Strategic Outcome Three – Auditing and related services	
Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view, and users of audit-related services can place an appropriate degree of reliance on the reports provided.	
The complexity and volume of risks, including the risk of fraud, arising from the tougher economic conditions may be challenging for auditors to address adequately.	Individual auditors and audit firms have the primary responsibility for addressing this risk.
	Undertake risk based monitoring and report on the quality of audits of publicly traded and other major public interest entities, having particular regard during our inspection work in 2009/10 to audit issues relating to going concern, fair value accounting estimates and disclosures and the impairment of assets including goodwill and other intangibles.
	Keep under review the guidance to auditors and issue further guidance if appropriate.
Strategic Outcome Four - Actuarial Practice	
Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.	
Providing information which adequately reflects the uncertainties arising from tougher economic conditions may be challenging for actuaries.	Individual actuaries and actuarial firms have the primary responsibility for addressing this risk. Keep under review the guidance for users of actuarial information and issue further guidance if appropriate.
Strategic Outcome Five – Professionalism of accountants and actuaries	
Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.	
Current economic conditions may increase the pressures on accountants and actuaries to make or accept inappropriately aggressive judgements and take or support inappropriate decisions.	Individual accountants and actuaries and the organisations which employ them, and the accountancy and actuarial professional bodies, have the primary responsibility for addressing this risk.

Table 2 – Other major risks and activities and projects for 2009/10

Strategic Outcome One - Corporate governance	
UK companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.	
Risks	FRC's major activities and projects
The Combined Code and the 'comply or explain approach' may lose credibility resulting in reduced confidence in corporate governance.	Complete the review of the effectiveness of the Combined Code on Corporate Governance.

Strategic Outcome Two - Corporate reporting	
Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.	
Risks	FRC's major activities and projects
The goal of a single set of global accounting standards may be undermined if there is a loss in support for the role of the IASB and other standard setters in exercising independent judgement, based on their skills and experience, or by the actions of jurisdictions to carve-out or adapt IFRS, so reducing the quality of their accounting standards.	Promote continued support in the EU for maintaining the IASB and other standard setters' ability to exercise independent judgement in setting accounting standards.
Principles-based standards may be undermined by the inappropriate development of IFRS, towards a more rules-based approach, influenced by intense pressure to achieve the convergence of IFRS and US GAAP.	Continue to influence the development of IFRS during a period in which a large number of important standards are likely to be scheduled for agreement.
Corporate reports may be overly complex and lack relevance.	Finalise our recommendations arising from our review of complexity and relevance of requirements relating to corporate reporting.
<i>Beyond the period of the 2009/10 Plan, there is a risk that the proposed actions are not completed.</i>	<i>Beyond the period of the 2009/10 Plan, we will promote the adoption of the recommendations arising from the review of complexity and relevance of corporate reporting.</i>
Continuing controversy about the extent of fair value accounting undermines confidence in corporate reporting.	Monitor market comment about the use of fair values and influence the IASB projects on measurement and the use of fair values within existing IFRS.

Note

- 1) **The risks which we believe are most significant are highlighted in bold**
- 2) *Risks and activities/projects which may be relevant beyond the 2009/10 horizon are shown in italics*

Our risk assessments and the related programme of activities and projects which we propose to undertake in 2009/10 are set out in more detail in our supporting information (section A) which is available on our website at <http://www.frc.org.uk/about/plans.cfm>.

Strategic Outcome Three – Auditing and related services

Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view, and users of audit-related services can place an appropriate degree of reliance on the reports provided.

Risks	FRC's major activities and projects
<p>The high level of concentration in the audit market may result in significant uncertainty and cost in the event of one or more of the Big Four audit firms leaving the market.</p> <p><i>Beyond the period of the 2009/10 Plan, there is a risk that the implemented recommendations are not sufficiently effective to reduce the risks arising from concentration in the audit market.</i></p>	<p>Continue to monitor and implement, where appropriate, the recommendations made by the Market Participants Group which aim to enhance the efficiency of the audit markets and to mitigate the risks associated with a major firm leaving the market.</p> <p><i>Beyond the period of the 2009/10 Plan, we will assess the overall effectiveness of the implemented recommendations and consider the need for additional action.</i></p>
<p>Provisions of the Statutory Audit Directive may be difficult to implement cost-effectively.</p> <p><i>Beyond the period of the 2009/10 Plan, we will consider the risks arising from the ending of transitional arrangements for foreign auditors under the Statutory Audit Directive.</i></p>	<p>Continue to work with the EU and BERR to influence the implementation of the Statutory Audit Directive.</p> <p><i>Beyond the period of the 2009/10 Plan, we will review the effectiveness of the arrangements and consider the need for additional action.</i></p>
<p>There is a risk that the changes to the auditing standards may not be effective if they are inherently difficult for auditors to implement in an efficient and/or effective manner.</p>	<p>Implement the decision to apply Clarity ISAs in the UK and Ireland and work positively towards the adoption of Clarity ISAs in the EU.</p>
<p>Regulatory arrangements may be inadequate to facilitate the effective monitoring of firm-wide procedures at firms managed on a global or regional basis.</p>	<p>Contribute to the work of IFIAR and EGAOB and promote effective co-operation between national audit regulatory authorities, in particular gaining an enhanced understanding of the audit networks; and consider the implication for audit quality.</p>

Strategic Outcome Four - Actuarial Practice

Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.

Risks	FRC's major activities and projects
<p>Actuarial standards may not contribute effectively to the reliability and usefulness of actuarial information and advice within the wider regulatory framework for the insurance and pension sectors.</p> <p><i>Beyond the period of the 2009/10 Plan, there will be risks associated with the transition to the new standards and the introduction of Solvency II.</i></p>	<p>Continue to develop a new suite of technical actuarial standards - publishing final standards on data, modelling and reporting, and draft standards on pensions and insurance; and reviewing the implications of the introduction of Solvency II.</p> <p><i>Beyond the period of the 2009/10 Plan, we will review the effectiveness of the new standards and consider the need for additional standards or guidance.</i></p>

Strategic Outcome Five – Professionalism of accountants and actuaries	
Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.	
Risks	FRC's major activities and projects
Failure to agree and implement the changes to the Accountancy Scheme in the next year will leave the AADB facing a substantial risk from costs awards which, in certain circumstances, could impact on the effectiveness of the AADB.	Complete the implementation of changes to the AADB Accountancy Scheme.
The regulatory framework for the enforcement of professional and ethical standards may be incomplete or may not meet the public interest.	Review the effectiveness of the regulatory framework for professional discipline and enforcement of standards, including the FRC's role within the framework.

Strategic Outcome Six - FRC Effectiveness	
The FRC is an effective, accountable and independent regulator, operating in the public interest and actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.	
Risks	FRC's major activities and projects
The FRC may not be sufficiently alert to, or be made aware of, relevant developments in the markets or may fail to respond appropriately to those developments.	Review the adequacy of the FRC's arrangements for monitoring emerging events and appropriately prioritise our activities.

2.2 Budget 2009/10

The following table shows a summary of our budget for 2009/10. Details of our budget are shown in our supporting information (section B) at <http://www.frc.org.uk/about/plans.cfm>. Our Financial Management and Reporting Framework provides the framework within which we manage and report on the costs of our activities and how they are funded. The framework is available at <http://www.frc.org.uk/about/funding.cfm>.

We expect core operating costs for accounting, auditing and corporate governance to increase by 5%. We have increased our contingency allowance to £0.5m in 2009/10 to provide an additional degree of flexibility to respond to the heightened risks to confidence in corporate reporting and governance. We expect core operating costs for actuarial standards and regulation to increase by 4%. Case costs taken by the AADB are potentially volatile from year to year, depending on the number and complexity of cases and, therefore, cannot be subject to firm budgetary limits.

The budget includes a provisional estimate of costs for those cases which the AADB has formally initiated. If other cases arise they may involve additional expenditure for which no allowance has been made in the budget. In the more difficult economic circumstances it is possible that a larger number of cases may be investigated in 2009/10 than in previous years.

We endeavour to secure value for money in all our expenditure. We intend to operate with approximately the same staffing level (just over 90 staff) over the medium term, i.e. approximately the next three years. We recognise, however, that there is a greater than usual risk that we may need to increase our resources if additional activity is required to address emerging risks.

At the time of publication of this document our financial results for 2008/09 remain subject to audit and are, therefore, described as estimates.

Table 1 – Budget Summary

	Budget 2009/10 £m	Estimated 2008/09 £m	Budget 2008/09 £m
<i>Accounting, auditing and corporate governance</i>			
Core operating costs	12.5	11.8	11.9
Audit inspection costs	2.6	2.2	2.5
Accountancy disciplinary case costs	1.8	1.4	1.3
Review Panel case costs	—	—	—
Total	16.9	15.4	15.7
<i>Actuarial standards and regulation</i>			
Core operating costs	2.3	2.2	2.2
Actuarial disciplinary case costs	0.5	—	—
Total	2.8	2.2	2.2
FRC total costs	19.7	17.6	17.9

2.3 Funding projections 2009/10

The funding requirement primarily relates to our expenditure projections and our intention to maintain our reserves at an appropriate level.

Table 2 summarises our funding projections for 2009/10, including the planned increases in reserves. Table 3 summarises the projected levels of reserves at 31 March 2009 and 2010.

Table 2 – Funding projections

	Budget 2009/10 £m	Estimated 2008/09 £m	Budget 2008/09 £m
Accounting, auditing and corporate governance			
Total expenditure	16.9	15.4	15.7
Increase in general reserves	0.3	—	—
Total	17.2	15.4	15.7
Actuarial standards and regulation			
Total expenditure	2.8	2.2	2.2
(Decrease)/increase in case cost fund	(0.2)	0.2	0.2
Increase in general reserves	—	—	—
Total	2.6	2.4	2.4
FRC total funding	19.8	17.8	18.1

Table 3 – Projected level of reserves at 31 March

	Budget 2010 £m	Estimated 2009 £m	Budget 2009 £m
Reserves			
FRRP legal cost fund	2.0	2.0	2.0
Accounting, auditing and corporate governance – general	1.2	0.9	0.9
Actuarial case cost fund	0.3	0.5	0.5
Actuarial standards and regulation – general	0.1	0.1	—
FRC total reserves	3.6	3.5	3.4

Section A – Risk assessments and work programme 2009/10

This section sets out our risk assessments and the related activities and projects in our work programme for 2009/10.

We have identified the major risks to the outcomes in the Strategic Framework at Component level by making assessments, using our regulatory professional judgement, of three scenarios in relation to each component:

- the **present** scenario - the extent to which the outcome is achieved at present.
- the **downside** scenario – the extent to which the outcome will be achieved in two/three years if those responsible do not take effective action to promote the achievement of the outcome and adequately mitigate the plausible risks that might arise.
- the **upside** scenario – the extent to which the outcome will be achieved in two/three years if those responsible do take effective action to promote the achievement of the outcome and adequately mitigate the plausible risk that are most likely to materialise.

We assess the achievement of the component in each scenario as either *largely achieved* or as indicating potentially *significant concerns* or (more seriously) that it is *unlikely to be achieved*. A detailed explanation of our approach is published on our website at <http://www.frc.org.uk/about/>.

The components are shown in relation to the Supporting Outcome to which they contribute. For each Supporting Outcome we have indicated who has primary responsibility, within our Strategic Framework, for its achievement. Components for which we believe the FRC has primary responsibility in the UK are shown in bold. We have indicated, as appropriate, where the FRC as a whole or one of our Operating Bodies has lead responsibility for a specific component. Components where the primary responsibility rests with other agencies or with market participants are indicated through shading in grey.

The activities and projects we have selected for inclusion in the work programme are intended to contribute towards the outcomes defined in our Strategic Framework and address the risks we have identified. A number of our proposed activities and projects represent the continuation of existing initiatives.

We have highlighted in bold the major risks and the major activities and projects which are identified in the Plan 2009/10 (chapter two). We have shown in italics additional or different risks which may emerge, beyond the 2009/10 horizon, and which may be relevant to our future planning.

Supporting Outcome One (a)

Legislative provisions relating to corporate governance are effective and proportionate and appropriately implemented.

(Primary responsibility: Government)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Legislative provisions relating to corporate governance, originating in the UK or in the EU, are effective and proportionate.</p>	<p>Present Our assessment is that the legislative framework currently provides an appropriate underpinning to enable boards to retain flexibility in the way they organise themselves and exercise their responsibilities while ensuring that they are properly accountable to their shareholders. We, therefore, consider that this component is being <i>largely achieved</i> at present.</p> <p>Downside The tougher economic climate and political pressure at European level may increase the likelihood of further legislation. There is a risk that, over time, the implementation of new legislative requirements may have unintended consequences which might reduce the effectiveness of the “comply or explain” approach. However, we do not consider that this risk will materialise in the medium term. Based on our assessment of the likelihood and potential impact of this risk we believe that this component will continue to be <i>largely achieved</i>.</p> <p>Upside We will continue to work closely with BERR to promote a legislative framework which remains effective and proportionate. Subject to the impact of any new legislative proposals that may emerge at EU level, we believe that this component will continue to be <i>largely achieved</i>.</p>	<p>Work with the EU and BERR to influence the development and implementation of legislative provisions.</p> <p>Continue to support the work of the Pre-Emption Group.</p> <p>Develop guidance, as necessary, in relation to the meaning of adequate accounting records.</p>

Supporting Outcome One (b)

The regulatory framework is clear, proportionate and capable of dealing with a wide variety of circumstances and of adaption to developments in corporate practices.

(Primary responsibility: Regulatory authorities)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) There is a clearly documented basis for the role of the FRC in defining good practice in corporate governance.</p>	<p>Present The FSA’s Listing Rules require companies listed on the Main Market of the London Stock Exchange to provide a ‘comply or explain’ statement in their annual report explaining how they have applied the Combined Code. The Government has confirmed that the FRC is responsible for publishing and maintaining the Code. We believe that this component is <i>largely achieved</i> at present.</p> <p>Downside We are not aware of evidence which suggests that the Combined Code is likely to be challenged as a basis for good practice in corporate governance provided that its effectiveness is monitored and it is subject to regular review. We consider, therefore, that this component will continue to be <i>largely achieved</i>.</p> <p>Upside We believe that, over the medium term, this component will continue to be <i>largely achieved</i> because there is widespread support for the FRC’s role in maintaining the Code.</p>	<p><i>No significant projects planned in the year.</i></p>
<p>ii) Good governance is defined by a Code of Principles outlining good practice, based on a “comply or explain” approach and kept under regular review.</p> <p>Primary responsibility: FRC</p>	<p>Present The Combined Code on Corporate Governance identifies good governance practices, but companies can choose to adopt different practices if these are more appropriate. Our 2007 Review of the impact of the Combined Code, and other monitoring, suggests that the Code continues to have a broadly beneficial impact and contributes to higher overall standards of governance among UK listed companies. Two limited changes to the Code were made as a result of the 2007 Review. A further Review commenced in March 2009 and will be completed before the end of the year. In addition, we have issued draft updated guidance for directors of UK listed companies on “going concern”. We have also issued guidance to audit committees on the challenges arising from tougher economic conditions. The available evidence suggests that this component is being <i>largely achieved</i> at present.</p> <p>Downside There is a risk that the Combined Code and the ‘comply or explain approach’ may lose credibility resulting in reduced confidence in corporate governance. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Provided that any major risks which emerge are identified and appropriately addressed, we believe it is reasonable to expect that this component will continue to be <i>largely achieved</i>.</p>	<p>Complete the review of the effectiveness of the Combined Code.</p> <p>Finalise updated ‘going concern’ guidance.</p>

Supporting Outcome One (c) The necessary high standards of performance are achieved by boards. <i>(Primary responsibility: Boards of primary listed companies)</i>		
Component	Assessment & Risk Summary	Activities/Projects
i) There is an adequate supply of skilled and experienced people willing to serve on boards.	<p>Present The available evidence suggests that in general this component is being <i>largely achieved</i> at present, though tougher economic conditions will put additional pressure on boards to ensure that they recruit and retain suitably qualified people.</p> <p>Downside There is a risk that developments in the market or inappropriate regulatory requirements might lead to perceived increases in compliance duties and exposure to liability and reputational risk which might discourage suitably qualified people from serving on boards. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside We believe that boards will, in their own interests, take appropriate action to continue to recruit appropriately qualified individuals. Our assessment is that this component will continue to be <i>largely achieved</i>.</p>	<p><i>The activities needed to achieve this supporting outcome are primarily the responsibility of company boards. Shareholders have a significant secondary role in relation to the achievement of this outcome with regard to individual companies. The FRC will keep under review the behaviour of boards and quality of disclosures.</i></p>
ii) Boards accept the Code as a basis for good practice and willingly seek to meet its standards in a way which is consistent with the long-term health of their companies.	<p>Present Our assessment, based on the response to our 2007 review of the Combined Code, is that there continues to be widespread acceptance of the Code as a basis for good practice. However, it is apparent that under present circumstances there is reduced confidence in corporate governance, particularly in the financial services sector. On that basis, we have <i>significant concerns</i> about the achievement of this component at present.</p> <p>Downside There is a risk that during a period of volatility and increased uncertainty, boards may find the assessment and management of risk particularly difficult. In these circumstances Boards may no longer accept key aspects of the Code. There are also risks that directors may not appropriately meet their obligations in relation to “going concern”, and that changing listed company ownership structures challenge the viability of the UK approach to corporate governance. Based on our assessment of the likelihood and potential impact of these risks we believe that this component would be <i>unlikely to be achieved</i> in this scenario.</p> <p>Upside We believe that, this component will be <i>largely achieved</i> because boards recognise the benefits of the Combined Code and the “comply or explain” approach and will take action to adequately manage risk. This component will only be achieved if action is taken by boards to respond to the heightened risks associated with tougher conditions.</p>	
iii) Companies provide shareholders with information on their governance and performance which is relevant, understandable and balanced.	<p>Present There remains scope for improvement in the overall quality of disclosures by companies, particularly in the tougher economic environment. We therefore have <i>significant concerns</i> about the achievement of this component at present.</p> <p>Downside There is a risk that providing adequate information about governance practices may be significantly more challenging for boards in the current environment. Based on our assessment of the likelihood and potential impact of this risk we believe that this component would be <i>unlikely to be achieved</i> in this scenario.</p> <p>Upside We believe that it is realistic to expect that the majority of boards will recognise the merits of improving the quality of disclosures (about companies’ governance practices, business models and business risks) to the extent that this component will be <i>largely achieved</i>.</p>	

iv) Boards accept the need to engage with shareholders in dialogue on corporate governance matters.	<p>Present The available evidence suggests that this component is being <i>largely achieved at present</i>.</p> <p>Downside There is a potential risk that boards will not engage effectively with institutional shareholders, but we are not aware of indicators which suggest that this risk is likely to materialise, and we consider that this component will continue to be <i>largely achieved</i>.</p> <p>Upside We believe that the majority of boards will continue to support the Combined Code and the “comply or explain” approach and engage appropriately with shareholders and that this component will, therefore, continue to be <i>largely achieved</i>.</p>	
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Supporting Outcome One (d) Institutional shareholders regard good corporate governance as an essential basis for sustained good performance by companies. <i>(Primary responsibility: Institutional shareholders)</i>		
Component	Assessment & Risk Summary	Activities/Projects
i) Institutional shareholders support shareholder-led enforcement of standards of corporate governance.	<p>Present The available evidence suggests that there is strong support among investors for shareholder-led enforcement of standards of corporate governance and that this component is, therefore, being <i>largely achieved</i> at present.</p> <p>Downside There is a risk that if boards do not appropriately engage with institutional shareholders, shareholder support for the “comply or explain” approach will be reduced. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside The available evidence suggests that institutional shareholders will continue to support shareholder-led enforcement of standards of corporate governance and we consider that this component will be continue to be <i>largely achieved</i>.</p>	<p><i>The activities needed to achieve this supporting outcome are primarily the responsibility of institutional shareholders. The FRC will keep under review the behaviour of institutional shareholders and the effectiveness of engagement.</i></p>
ii) Institutional shareholders support the Code, including “comply or explain”, as the best instrument for enforcing good corporate governance in listed companies.	<p>Present The available evidence suggests this component is being <i>largely achieved</i>, and that institutional shareholders are increasingly applying the Combined Code itself rather than developing their own standards.</p> <p>Downside There is a risk that some investors may take a “box-ticking” approach to assessing governance requirements. There is also a risk that changing listed company ownership structures challenge the viability of the UK approach to corporate governance. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside We believe that the majority of institutional shareholders will continue to recognise the merits of the Combined Code and the “comply or explain” approach and apply them appropriately and that this component will, therefore, continue to be <i>largely achieved</i>.</p>	
iii) Institutional shareholders appropriately engage in dialogue with boards on corporate governance matters.	<p>Present The available evidence suggests that this component is being <i>largely achieved</i>, and that institutional shareholders are increasing the resource they devote to engagement with boards. However, there remain concerns about both the quantity and quality of engagement.</p> <p>Downside There is a risk that changes in ownership structures, an increased trend for outsourcing voting and engagement activities, and the costs of engagement, may affect the level of engagement, reducing the number of investors that actively engage and the amount of engagement they undertake. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside The available evidence, and the increased focus on engagement as a result of the problems in the financial sector, suggests that a sufficient number of investors will continue to take the view that it is in their interests to engage with boards and that this component will, therefore, continue to be <i>largely achieved</i>.</p>	

Supporting Outcome Two (a)

Legislative provisions relating to corporate reporting are effective and proportionate and appropriately implemented.

(Primary responsibility: Government)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Legislative provisions relating to corporate reporting, originating in the UK or in the EU, are effective and proportionate.</p>	<p>Present The legislative framework for corporate reporting in the UK is increasingly determined at EU level, influenced by global initiatives. Since 2005, UK listed companies have been required to use EU-adopted IFRS in their consolidated financial statements, and AIM companies now use IFRS. The FRC believes that the most appropriate standards are developed when standard setters are able to exercise independent judgement, relying on their skills and experience and supported by effective consultation with market participants and other stakeholders. During the current financial crisis, there is an increased risk of inappropriate interventions regarding the adoption of IFRS. We, therefore, have <i>significant concerns</i> about the achievement of this component.</p> <p>Downside The goal of a single set of global accounting standards may be undermined if there is a loss in support for the role of the IASB and other standard setters in exercising independent judgment, based on their skills and experience, or by the actions of jurisdictions to carve-out or adapt IFRS, so reducing the quality of their accounting standards. Based on our assessment of the likelihood and potential impact of this risk we believe that this component would be <i>unlikely to be achieved</i> in this scenario. Although we can influence them, the final decisions on EU legislation are not within our control.</p> <p>Upside We believe that our close working relationships with EU and UK partners will enable us to continue to promote a principles-based and proportionate approach to EU requirements, leading us to believe that there is a reasonable prospect that this component can be <i>largely achieved</i> in the medium term.</p>	<p>Promote continued support in the EU for maintaining the IASB and other standard setters' ability to exercise independent judgement in setting accounting standards -working with the EC, SARG, EFRAG and other EU national standard setters.</p> <p>Work with the EU and BERR to influence the development and implementation of legislative provisions within an appropriate accountability framework.</p>

Supporting Outcome Two (b)

The regulatory framework provides clarity in what is required to provide relevant, reliable, understandable and comparable reports, and underpins the importance of a true and fair view.

(Primary responsibility: Regulatory authorities)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Accounting standards provide an effective framework for the preparation of financial reports, are principles-based and serve the public interest.</p> <p><i>Primary responsibility: ASB</i></p>	<p>Present Our assessment is that this component is <i>largely achieved</i>, based on the current framework of IFRS.</p> <p>Downside We believe that there are three major risks associated with this component. These are that:</p> <ul style="list-style-type: none"> • Principles-based standards may be undermined by the inappropriate development of IFRS, towards a more rules-based approach, influenced by intense pressure to achieve the convergence of IFRS and US GAAP. • Corporate reports may be overly complex and lack relevance. • Continuing controversy about the extent of fair value accounting may undermine confidence in corporate reporting. <p>Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside There is an opportunity to encourage the development and adoption of IFRS which are principles-based and bring benefits to both providers and users of capital without imposing excessive costs or inhibiting the responsiveness of accounting standards to new circumstances.</p> <p>Our project to consider the complexity and relevance of corporate reporting should provide us with an enhanced understanding which will enable us to make recommendations for improving the framework for corporate reporting and contribute to this component being <i>largely achieved</i>.</p> <p><i>Beyond the period of the 2009/10 Plan, there is a risk that the proposed actions arising from our review of the complexity and relevance of corporate reporting are not completed.</i></p>	<p>Continue to influence the development of IFRS during a period in which a large number of important standards are likely to be scheduled for agreement.</p> <p>Finalise our recommendations arising from our review of complexity and relevance of requirements relating to corporate reporting.</p> <p>Monitor market comment about the use of fair values and influence the IASB projects on measurement and the use of fair values within existing IFRS.</p> <p><i>Beyond the period of the 2009/10 Plan, we will promote the adoption of the recommendations arising from the review of complexity and relevance of corporate reporting.</i></p>
<p>ii) The standard-setting body plays an influential role in the development of international accounting standards, and plays an influential role in EFRAG and with other European standard-setters.</p> <p><i>Primary responsibility: ASB</i></p>	<p>Present The ASB plays an active and effective role in the development of international accounting standards, in close consultation with UK stakeholders. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside As noted, the final decisions on IFRS are outside our control. There is a risk that the ASB will not be able to influence satisfactorily the framework of international standards, and the way it is implemented in the EU. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Based on the ASB's current influence, and the significant resources devoted to its influencing role both at global and EU level, we believe that it is reasonable to assume that this component will in practice continue to be <i>largely achieved</i>.</p>	<p>Contribute to specific IASB projects as appropriate.</p> <p>Continue to play a leading role in the global group of National Standard Setters (NSS).</p> <p>Participate in EFRAG and Pro-active Accounting Activities in Europe (PAAinE) projects.</p> <p>Deliver a report setting out final recommendations on the financial reporting of pensions for consideration by the IASB.</p>

<p>iii) The standard-setting body maintains an appropriate and high quality regime for UK accounting standards – which takes account of the size and degree of public interest in the entities to which the regime applies.</p> <p>Primary responsibility: ASB</p>	<p>Present We recognise that the long-term goal of having a single set of accounting standards which is accepted globally is compatible with the continued existence of national GAAPs (including UK GAAP) that might continue to be used extensively by companies whose securities are not traded internationally. The ASB has kept in close touch with UK stakeholders to ensure that there is an appropriate UK strategy for convergence with international standards, that UK accounting standards reflect market developments, and that the needs of smaller companies are addressed. On the basis of feedback from UK stakeholders, our assessment is that this component is <i>largely achieved</i> at present.</p> <p>Downside There is a risk that future convergence with IFRS reduces the usefulness of accounts prepared under UK GAAP. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside We believe that this component will be <i>largely achieved</i> by establishing, on the basis of thorough consultation with UK stakeholders, an appropriate degree of convergence between UK reporting standards and international standards.</p> <p>The ASB is closely monitoring small company financial reporting both in terms of keeping the FRSE up to date and in taking forward work on the ASB’s convergence strategy and the IASB’s project to develop an IFRS for Private Entities – which will contribute to the achievement of this component.</p>	<p>Implement an agreed strategy for the future of UK GAAP and its convergence with international standards.</p> <p>Re-evaluate the regulatory framework for SME accounting, auditing and related services. (see 3.b.i).</p>
<p>iv) There is guidance on the meaning of "true and fair" to guide preparers and to maintain confidence in the financial reporting regimes in place.</p> <p>Primary Responsibility: FRC</p>	<p>Present A revised statement has been published. At present, therefore, we consider that this component is <i>largely achieved</i>.</p> <p>Downside If appropriate guidance is not maintained, there is a risk that preparers of accounts and auditors will perceive a weakening in the importance of "true and fair". However, we believe that appropriate guidance can be maintained and that this component will continue to be <i>largely achieved</i>.</p> <p>Upside Overall we believe that this component will continue to be <i>largely achieved</i>.</p>	<p><i>No significant projects planned in this year.</i></p>
<p>v) There is best practice guidance to preparers on aspects of corporate reporting not covered by accounting standards, such as narrative reporting.</p> <p>Primary Responsibility: ASB</p>	<p>Present The ASB has published guidance on narrative reporting and pensions disclosures, on the basis of which we regard this component as <i>largely achieved</i>.</p> <p>Downside Failure to maintain and effectively promote guidance on best practice in narrative reporting and pensions disclosures (and other issues that might arise in this respect) could lead to shortcomings in the quality of narrative information provided to shareholders. In the current environment, the challenges for directors to disclose adequate information regarding companies’ business models and business risks may increase, requiring a revision to the guidance. There is also a risk that inconsistency in sustainability reporting leads to market confusion requiring guidance to be issued. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside However, we believe that appropriate guidance can be maintained in relation to aspects of financial reporting such as narrative reporting, and that this component will continue to be <i>largely achieved</i>.</p>	<p>Consider the need to revise the guidance on best practice in narrative reporting, including sustainability reporting, in light of the review of narrative reports. (see 2.c..ii).</p> <p>Keep under review the guidance to audit committees and directors and issue further guidance if appropriate.</p>

Supporting Outcome Two (c)

Financial statements provided by directors show a true and fair view and reflect best practice in the provision of all information in financial reports.

(Primary responsibility: Directors, trustees etc.)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Directors apply the principles set out in accounting standards responsibly and with integrity and in a way that reflects the underlying economic reality; and disclose and explain the key judgments made in compiling financial statements and other reports.</p>	<p>Present Our monitoring activity, summarised in the FRRP 2008 Annual Review (based on a review of accounts in the year end to 31 March 2008), suggests that, in general, preparers have been alert to the heightened risk arising from credit market conditions. We therefore believe that this component is being <i>largely achieved</i> at present.</p> <p>Downside Current economic conditions may make it more challenging for directors to prepare financial statement which comply fully with the requirements of accounting standards and which show a true and fair view. In particular, corporate reports may not contain appropriate disclosures in the light of economic conditions at the time of approval of financial statements, notably on the fair value of assets and the “going concern” assessment. In addition, current economic conditions may increase the risk of fraud in preparing financial statements. Based on our assessment of the likelihood and potential impact of these risks we believe that this component would be <i>unlikely to be achieved</i> in this scenario.</p> <p>Upside We believe that if preparers remain alert to the heightened risks and respond accordingly this component will continue to be <i>largely achieved</i>.</p>	<p><i>The activities needed to achieve this supporting outcome are the responsibility of directors and trustees.</i></p>
<p>ii) Directors set out a clear and balanced analysis of the development, performance, strategic position and future prospects and direction of their business that enables users to make informed decisions, including an assessment of the Directors’ stewardship.</p>	<p>Present The ASB review of narrative reporting, published in January 2007, found that most companies were good at describing their strategy and current performance. However, it noted that companies were weaker on providing forward-looking information and identifying their principal business risks and uncertainties and KPIs. This was also noted as an issue in the FRRP 2008 Review findings and recommendations. We therefore have <i>significant concerns</i> about the achievement of this component.</p> <p>Downside The risk that narrative reporting may not set out a clear and balanced analysis may increase in a tougher economic environment. During a period of volatility and increased uncertainty, the challenges for directors to describe effectively companies’ business models and business risks may increase. Based on our assessment of the likelihood and potential impact of this risk we believe that this component would be <i>unlikely to be achieved</i> in this scenario.</p> <p>Upside We believe that our concerns are likely to continue into the medium term and that it may be necessary for additional disclosure requirements to be put in place. We believe, therefore, that we will continue to have <i>significant concerns</i> about the extent to which this component is achieved.</p>	<p>Review the need for additional disclosure requirements relating to business models.</p>

Supporting Outcome Two (d)

Compliance with financial reporting requirements is appropriately monitored and enforced.

(Primary responsibility: Regulatory authorities)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) There is an effective and efficient mechanism to ensure compliance with financial reporting requirements – which provides for a proportionate, risk-based targeting of information for review, and encourages open dialogue with companies and informed referrals from the investor community.</p> <p>Primary responsibility: FRRP</p>	<p>Present Directors prepare company accounts and auditors report whether they give a true and fair view and comply with the law, including IFRS or UK GAAP. The FRRP aims to reduce the risk of failure in corporate reports. To this end, it reviews a sample of reports selected on a risk-assessed basis for compliance with law and accounting standards. Where there is, or may be, a question of non-compliance with reporting requirements the FRRP may open an enquiry. The FRRP’s remit extends to annual and interim accounts of public and large private companies and certain other listed issuers.</p> <p>On the basis of accounts reviewed to March 2008, the FRRP has concluded that the current standard of corporate reporting in the UK is good. The areas of reporting that prompted most questions were those dealing with more complex accounting issues or where the exercise of judgement by management is most critical. The FRRP believes that there is no current systemic failure in compliance with financial reporting requirements and, therefore, we believe that this component is <i>largely achieved</i> at present.</p> <p>Downside Given its resources and powers, the FRRP will only remain effective with the consent of the reporting community and provided that our approach is seen as credible and sustainable by other regulators, including those in the EU and US.</p> <p>Even with this consent there is still a risk that monitoring arrangements may fail to identify material and systemic shortcomings in compliance with financial reporting requirements. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Our assessment is that the FRRP will continue to be supported by the reporting community and that it will remain an effective mechanism in promoting compliance with financial reporting requirements. This leads us to believe that this component will continue to be <i>largely achieved</i>.</p>	<p>Review a risk-based selection of annual and interim accounts and directors’ reports. Reviews will focus on the banking, retail, leisure and travel, commercial property and house-building sectors and others which derive significant revenue from the provision of business services such as advertising, media, recruitment and technology.</p> <p>Review narrative reporting in the light of the business review requirements of the Companies Act 2006.</p> <p>Respond to matters drawn to our attention as a result of complaints or public comment, encouraging referrals from the investment community, other professional advisers and elsewhere.</p> <p>Influence the development of international enforcement practices through active involvement in EECS, established under CESR.</p>

Supporting Outcome Three (a)

Legislative provisions relating to auditing and related services are effective and proportionate and appropriately implemented.

(Primary responsibility: Government)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Legislative provisions relating to auditing and related services, originating in the UK or in the EU, are effective and proportionate.</p>	<p>Present The Companies Act enables the Secretary of State to delegate powers to the POB to provide independent oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies. Our assessment is that this component is being <i>largely achieved</i> in terms of the legislative provisions which currently apply.</p> <p>Downside There is a risk that provisions of the Statutory Audit Directive are difficult to implement cost-effectively, which would lead us to have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Given the extent of recent changes in Company Law, it is our assessment that there are unlikely to be further major changes in the medium term and that this component will continue to be <i>largely achieved</i>.</p> <p><i>Beyond the period of the 2009/10 Plan, we will consider the risks arising from the ending of transitional arrangements for foreign auditors under the Statutory Audit Directive.</i></p>	<p>Continue to work with the EU and BERR to influence the implementation of the Statutory Audit Directive.</p> <p>Participate in the arrangements for the co-ordination of the regulation of audit and the oversight of the auditing profession in the EU.</p> <p>Monitor developments relating to auditor liability agreements.</p> <p><i>Beyond the period of the 2009/10 Plan, we will review the effectiveness of the arrangements and consider the need for additional action.</i></p>

Supporting Outcome Three (b)

The regulatory framework provides clarity on the role and purpose of audit, and related services and the high standards which practitioners should meet.

(Primary responsibility: Regulatory authorities)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Performance and ethical standards and guidance for audits and related services, including standards for reporting on investment circulars, provide an effective framework for performance, are principles-based, and serve the public interest.</p> <p><i>Primary Responsibility: APB</i></p>	<p>Present The evidence available to the FRC from audit inspections suggests that auditing and ethical standards provide a reasonable framework for the conduct of audits. The APB has provided significant input to the revision of international auditing standards and has decided to implement these in advance of likely EU adoption. The APB has also recently updated its ethical standards for auditors. While audit inspections do not cover related services, the APB has also recently updated its standards for reporting accountants in relation to prospectuses. On this basis, we consider that this component is <i>largely achieved</i> at present.</p> <p>Downside There is a risk that the changes to the auditing standards may not be effective if they are inherently difficult for auditors to implement in an efficient and/or effective manner. There is also a risk that, as companies take advantage of audit exemption, users of their financial statements decide to place more reliance on non-audit work performed by external accountants and that an expectation gap might exist in relation to such work. There are also increased challenges for audits in the current economic environment. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Responses to the APB consultation on new auditing standards demonstrate that the profession acknowledges the importance of high quality training and implementation support being provided to auditors. We also believe that likely changes in European requirements will provide a valuable opportunity to re-evaluate the regulatory framework for SME accounting, auditing and related services (see 3.b.i) and thereby address any expectation gap before it develops. We believe in the medium term, therefore, that this component will continue to be <i>largely achieved</i>.</p>	<p>Implement the decision to apply Clarity ISAs in the UK and Ireland and work positively towards the adoption of Clarity ISAs in the EU.</p> <p>Keep under review guidance to auditors on the challenges arising from tougher conditions and issue guidance if appropriate.</p> <p>Re-evaluate the regulatory framework for SME accounting, auditing and related services (see 2b.iii).</p> <p>Review the implementation of regulations and practice on transparency reporting by firms and issue guidance as required.</p>
<p>ii) The standard-setting body plays an influential role in the development of international performance and ethical standards for audits and related services and plays an influential role in Europe.</p> <p><i>Primary Responsibility: APB</i></p>	<p>Present The APB plays an active and influential role in the development of international auditing and ethical standards, in close consultation with UK stakeholders. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that others might become more influential than the APB, leading to international standards becoming more prescriptive. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Based on the APB's current influence, and the resources devoted to its influencing role, we believe that it is reasonable to assume that this component will continue to be <i>largely achieved</i>.</p>	<p>Participate in the IAASB and contribute to the EGAOB's ISA sub-group to provide technical advice on the implementation of ISAs in Europe.</p>

<p>iii) There is a common understanding of the audit quality framework.</p> <p>Primary Responsibility: POB/APB</p>	<p>Present The FRC published its Audit Quality Framework in February 2008. The framework describes the key drivers of audit quality. On this basis, our assessment is that this component is being <i>largely achieved</i>.</p> <p>Downside There is a risk that auditors and audit committees do not sufficiently embed the framework into their practices. There is also a risk that the framework may lose relevance if it does not adequately reflect changing circumstances. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside The Audit Quality Framework is intended to be a dynamic concept. It will be updated as and when appropriate. On this basis, we believe that this component will continue to be <i>largely achieved</i>.</p>	<p><i>No significant projects planned in this year.</i></p>
<p>iv) Recognised supervisory and qualifying bodies have effective regulatory systems in place to support high quality audits and related services.</p>	<p>Present The POB's Report to the Secretary of State for BERR 2007/08 concluded that the recognised bodies take their responsibilities seriously and much of the regulatory practice is of a high standard. Although the report identified some specific areas where improvements could be made, our assessment is that this outcome is <i>largely achieved</i>.</p> <p>Downside If the recognised bodies do not adequately address POBs recommendations, or are slow to implement them, there is a risk that there will be an adverse effect on the effectiveness of their regulatory systems. In addition, there is a risk that the RSBs regulatory systems may be unable to cope with the tougher economic climate. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside In general, our experience is that the recognised bodies have taken steps to implement POB recommendations. We believe that it is reasonable to assume that the bodies will continue to respond in a positive manner and that this component will continue to be <i>largely achieved</i>.</p>	<p><i>The activities needed to achieve this component are primarily the responsibility of the relevant professional accountancy bodies.</i></p>

Supporting Outcome Three (c)

Audits and related services are reliable and useful, and are provided by auditors and audit firms and reporting accountants within an effective firm-wide environment and an efficient market for those services.

(Primary responsibility: Auditors and audit firms)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Audit and related services provide a rewarding career thus attracting, developing and retaining high quality entrants for the long term stability of the profession.</p>	<p>Present The POB's July 2008 Survey of Key Facts and Trends in the Accountancy Profession suggests that this component is <i>largely achieved</i> at present.</p> <p>Downside Increases in audit exemption thresholds have reduced the number of statutory audits significantly, which may make it increasingly difficult for auditors in very small practices to justify the cost of maintaining competence. If, for whatever reason, there was a failure to recruit, develop and retain sufficient numbers of high quality individuals to conduct audits the reliability and usefulness of auditing may be reduced and we would have <i>significant concerns</i> over the achievement of this component.</p> <p>Upside Professional bodies, auditors and other stakeholders have demonstrated a willingness to work together to address issues relevant to this component. Based on our view of the continuing strength of the accounting profession in the UK, our assessment is that this component will continue to be <i>largely achieved</i>.</p>	<p><i>The activities needed to achieve this supporting outcome are primarily the responsibility of individual auditors and audit firms.</i></p> <p>Outcome Five (Professionalism of accountants and actuaries) contributes to this outcome.</p>
<p>ii) Audit firms ensure that engagement teams for audits and related services have the capability, competence and time to detect material errors, omissions or irregularities in the financial statements they are auditing - and adhere to the principles on which auditing and ethical standards and guidance are based and not just the rules.</p>	<p>Present The AIU's audit quality inspections for 2007/08 indicated that the quality of auditing in the UK continued to be fundamentally sound. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that the complexity and volume of risks, including the risk of fraud, arising from the tougher economic conditions may be challenging for auditors to address adequately. Based on our assessment of the likelihood and potential impact of this risk we believe that this component would be <i>unlikely to be achieved</i> in this scenario.</p> <p>There is also a risk that a fragmented market reduces the quality of audits of smaller companies because small audit firms may struggle to gain and maintain adequate competency to undertake an effective audit.</p> <p>Upside The AIU inspection activity highlighted a number of areas for improvement; but there were no major indicators to suggest that audit firms will be unable to respond to the challenges emerging from the tougher economic conditions or that the quality of audits will diminish. Our assessment is that this component will continue to be <i>largely achieved</i> as long as auditors, and reporting accountants, remain alert to the heightened risks arising from the tougher economic conditions.</p>	<p>Work with the accountancy professional bodies to consider measures to address the fragmented market for audits of smaller companies, and to ensure that auditors are able to gain and maintain sufficient competence.</p>

<p>iii) Auditors and audit firms are well informed and trained in changes to auditing and ethical standards and other aspects of the regulatory framework.</p>	<p>Present The AIU’s findings suggest that the larger audit firms have responded to changes in standards in the past by allocating sufficient resources to address training needs. There is a concern on the adequacy of training of auditors in smaller firms. On balance, however, our assessment is that this component is <i>largely achieved</i> at present.</p> <p>Downside There are risks that auditors are ill-prepared for future changes in auditing standards and that the quality of audit declines because auditors fail to place sufficient emphasis on professional judgement and the audit quality framework. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Our assessment is that this component will continue to be <i>largely achieved</i> because audit firms will, in their own interests, take action to ensure that audit teams are trained in changes to auditing, ethical standards and other aspects of the regulatory framework.</p>	<p><i>The activities needed to achieve this supporting outcome are primarily the responsibility of individual auditors and audit firms.</i></p> <p>Outcome Five (Professionalism of accountants and actuaries) contributes to this outcome.</p>
<p>iv) Auditors and reporting accountants should communicate effectively with the entity and, through their reports, with users.</p>	<p>Present The AIU’s monitoring findings indicated that auditor’s reports to audit committees were generally of a good standard. Some stakeholders believe that there is a need to add clarity and usefulness to the auditors’ report. However, APB’s revisions to facilitate a more concise auditor’s report should help to improve the clarity and usefulness of such reports. Overall, we believe that this component is being <i>largely achieved</i> at present.</p> <p>Downside There is a risk that, without sufficient focus, auditors might fail to provide significant information to audit committees. There is also a risk that some stakeholders may not support the APB’s proposed revisions to the auditors’ report. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside The APB’s proposed revisions to the auditor’s report should help to enhance its clarity and usefulness. On this basis, it is reasonable to believe that this component will continue to be <i>largely achieved</i>.</p>	
<p>v) There is an efficient market for audit and related services in the UK.</p>	<p>Present Despite the progress made regarding the recommendations made by the market participants group on Choice in the UK Audit Market we believe that there are still <i>significant concerns</i> in relation to the achievement of this component.</p> <p>Downside The risks relating to audit market concentration are likely to continue for the medium to long term. Worsening economic conditions could lead to developments in the market for audit services in the UK which could further reduce its efficiency. The risks relating to the high level of concentration in the audit market may result in significant uncertainty and cost in the event of one or more of the Big Four audit firms leaving the market. Based on our assessment of the likelihood and potential impact of these risks we believe that this component would be <i>unlikely to be achieved</i> in this scenario. There is also a risk that the fragmented market for small company audit leads to a shortage of high quality small company auditors (see 3.b.iv). This could lead to a lack of confidence in small company audits.</p> <p>Upside The implementation of the Market Participants Group recommendations should contribute to progress in reducing this risk, but only slowly. We believe, therefore, that there will continue to <i>significant concerns</i> about the extent to which this component is achieved.</p> <p><i>Beyond the period of the 2009/10 Plan, there is a risk that the implemented recommendations are not sufficiently effective to reduce the risks arising from concentration in the audit market.</i></p>	<p>Continue to monitor and implement, where appropriate, the recommendations made by the Market Participants Group which aim to enhance the efficiency of the audit markets and to mitigate the risks associated with a major audit firm leaving the market.</p> <p><i>Beyond the period of the 2009/10 Plan, we will assess the overall effectiveness of the implemented recommendations and consider the need for additional action.</i></p>

Supporting Outcome Three (d)

Compliance with auditing and related services requirements is appropriately monitored and enforced.

(Primary responsibility: Audit committees and regulatory authorities)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Audit committees know what the main drivers of audit quality are, and are pro-active and effective in undertaking their reviews of audit quality and reporting their findings.</p>	<p>Present The feedback received during the preparation of Promoting Audit Quality suggested that this component is being <i>largely achieved</i>. However, the feedback also identified some concerns. In particular, some took the view that audit committees could do more to evaluate the effectiveness of external audit. FRC's changes to the Guidance on Audit Committees (The Smith Guidance) require audit committees to explain their audit selection to shareholders and to consider audit firms' annual transparency reports (where available). These changes will help to encourage a thorough review of audit quality.</p> <p>Downside Audit committees might fail to embed the audit quality framework in their review of audit effectiveness. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside The FRC has developed an audit quality framework which needs to be promoted to audit committees. Provided the framework is kept up-to-date and effectively promoted, the component will continue to be <i>largely achieved</i>.</p>	<p>Promote the audit quality framework.</p>
<p>ii) Audit monitoring focuses on the audit quality framework and the professional judgements exercised at both the firm-wide and engagement level.</p> <p>Primary Responsibility: POB</p>	<p>Present The AIU introduced new reporting arrangements involving the preparation of reports on individual audit engagements reviewed. AIU monitoring focuses on the quality of auditing and encompasses a wide ranging review of firm-wide procedures as well as an engagement-level review. The AIU will have regard to the Audit Quality Framework in its monitoring approach. Our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside The increased transparency of AIU reporting might reduce the effectiveness of monitoring if auditors become over defensive in dealing with our inspectors. The monitoring regime may also come under increased pressure on significant audit judgements. There is a risk in these circumstances that monitoring arrangements may fail to identify material and systemic shortcomings in the quality of audits of publicly traded and other major public interest entities.</p> <p>There is a risk that regulatory arrangements may be inadequate to facilitate the effective monitoring of firm-wide procedures at firms managed on a global or regional basis.</p> <p>Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Increased transparency of reporting by the AIU will better enable audit committees to provide effective oversight of the audit process. FRC's engagement with IFIAR and EGAOB will help to coordinate monitoring of any firms managed on a global or regional basis. We, therefore, believe that this component will continue to be <i>largely achieved</i>.</p>	<p>Undertake risk based monitoring and report on the quality of audits of publicly traded and other major public interest entities, having particular regard during our inspection work in 2009/10 to audit issues relating to going concern, fair value accounting estimates and disclosures and the impairment of assets including goodwill and other intangibles.</p> <p>Contribute to the work of IFIAR and EGAOB and promote effective co-operation between national audit regulatory authorities, in particular gaining an enhanced understanding of the audit networks and consider the implication for audit quality.</p> <p>Review the arrangements for enforcing compliance with auditing standards.</p>

<p>iii) The recognised supervisory bodies maintain appropriate arrangements for the monitoring and enforcement of compliance with their rules and for the investigation of complaints.</p> <p>Primary Responsibility: POB</p>	<p>Present The available evidence suggests that this component is being <i>largely achieved</i>. The POB's 2007/08 Report to the Secretary of State noted that the recognised bodies take their responsibilities seriously and much of the regulatory practice is of a high standard.</p> <p>Downside The POB's 2007/08 Report did, however, identify some areas for improvement. There is a risk that these improvements are not made, and the recognised bodies do not respond appropriately to future recommendations. In addition, there is the risk that the recognised bodies' regulatory systems may be unable to cope with the tougher economic climate. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Based on a continued responsible approach by the RSBs, we consider that this component is likely to continue to be <i>largely achieved</i>.</p>	<p>Carry out statutory responsibilities for the oversight of the regulatory processes of the RSBs and RQB.</p>
<p>iv) Appropriate arrangements are in place to monitor and enforce compliance with requirements regarding related services.</p>	<p>Present There is only limited independent monitoring of audit-related services. On this basis we have <i>significant concerns</i> about the achievement of this component.</p> <p>Downside We will continue to have <i>significant concerns</i> about the achievement of this component as long as the uncertainties described above continue.</p> <p>Upside There is an increased emphasis on independent monitoring of related services that are performed in the public interest. We therefore believe that this component will be <i>largely achieved</i>.</p>	<p>Review the extent to which the practice assurance schemes operated by the accountancy professional bodies provide an appropriate degree of confidence in services provided by their members in practice.</p>

Supporting Outcome Four (a)

Legislative provisions relating to actuarial practice are effective and proportionate and appropriately implemented.

(Primary responsibility: Government)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Legislative provisions relating to actuarial practice, originating in the UK or in the EU, are effective and proportionate.</p>	<p>Present The current framework for actuarial standards was implemented by the FRC following the Morris Review of the Actuarial Profession. It is a non-statutory framework which applies alongside the requirements of the relevant legislation and the statutory regulators – the FSA and the Pensions Regulator. The available evidence suggests that this component is being <i>largely achieved</i>.</p> <p>Downside Failure to maintain a satisfactory non-statutory regulatory framework would represent a <i>significant concern</i> in relation to the achievement of this component.</p> <p>Upside Subject to the understanding that the regulatory arrangements that the FRC has put in place will be reviewed after an appropriate interval, we believe that this component will continue to be <i>largely achieved</i>.</p>	<p>Contribute as appropriate to the continuing development of UK pension legislation and the EU Solvency II project.</p>
<p>ii) There is a clearly documented basis for the role of the FRC to set actuarial standards.</p>	<p>Present There is an agreement in place between the FRC and the actuarial profession which provides a non-statutory basis for the application of BAS standards to members of the actuarial profession. On this basis, we believe that this component is <i>largely achieved</i> at present.</p> <p>Downside If the agreement between the FRC and the actuarial profession does not operate effectively, or if it becomes appropriate to bring actuarial work by non-actuaries within the regulatory framework, we would have <i>significant concerns</i> about the achievement of this component.</p> <p>Upside Subject to the continued effective operation of the non-statutory framework for the application of BAS standards, and appropriate action to ensure that BAS standards can be applied by non-actuaries, we believe that this component will continue to be <i>largely achieved</i>.</p>	<p><i>No significant projects planned in this year.</i></p>

Supporting Outcome Four (b)

The regulatory framework provides clarity on what is required to provide relevant, transparent, clear and complete actuarial information.

(Primary responsibility: Regulatory authorities)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) There is a conceptual framework which sets out the principles and concepts that underlie actuarial information and gives coherence and consistency to the standards.</p> <p><i>Primary responsibility: BAS</i></p>	<p>Present The publication of the BAS conceptual framework in July 2008, following extensive consultation, should ensure that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that the conceptual framework does not ensure coherence and consistency in BAS standards. This would result in <i>significant concerns</i> in relation to the achievement of this component.</p> <p>Upside Gaining agreement on the conceptual framework, and the provisions to allow changes to the framework if necessary, lead us to believe that this component will continue to be <i>largely achieved</i>.</p>	<p><i>No significant projects planned in this year.</i></p>
<p>ii) Actuarial standards are developed or amended which are consistent with the conceptual framework (and best practice) and the provision of clear and complete actuarial information.</p> <p><i>Primary responsibility: BAS</i></p>	<p>Present The BAS is making progress in reforming individual standards in response to the needs of the users of actuarial information. The BAS published a Scope and Authority for Technical Standards in July 2008. However, until substantial progress has been made, there are <i>significant concerns</i> about the achievement of this component.</p> <p>Downside There is a risk that actuarial standards may not contribute effectively to the reliability and usefulness of actuarial information and advice within the wider regulatory framework for the insurance and pension sectors. There is also a risk that BAS standards may not be consistent with the proposed Solvency II requirements for assessing the assets and liabilities of insurers. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Given that we have finalised the conceptual framework and scope and authority for actuarial standards, we consider it is reasonable to expect that, over the medium term, this component will be <i>largely achieved</i>.</p> <p><i>Beyond the period of the 2009/10 Plan, there will be risks associated with the transition to the new standards and from Solvency II.</i></p>	<p>Continue to develop a new suite of technical actuarial standards - publishing final standards on data, modelling and reporting, and draft standards on pensions and insurance; and review the implications of the introduction of Solvency II.</p> <p><i>Beyond the period of the 2009, we will review the effectiveness of the new standards and consider the need for additional guidance.</i></p>
<p>iii) Actuarial standards fit appropriately into a framework that includes all relevant regulation (including professional, accountancy and prudential regulators) and take due account of public interest.</p>	<p>Present The BAS is working with the DWP, HM Treasury, the FSA, the Pensions Regulator, the POB and the Actuarial Profession in regard to the development of legislation and regulatory requirements. There are a number of issues which, until resolved, result in <i>significant concerns</i> about the achievement of this component.</p> <p>Downside Failure to ensure consistency between the requirements set by the statutory regulators and the actuarial standards set by the BAS would represent a <i>significant concern</i> in relation to the achievement of this component.</p> <p>Upside Given our close working relationships with the Government and regulatory authorities, and the constructive engagement of the Actuarial Profession, we expect that this component will be <i>largely achieved</i>.</p>	<p>The BAS will continue to work closely with Government and other regulators to ensure consistency as it develops its technical actuarial standards.</p>

<p>iv) There is guidance on the main drivers of actuarial quality.</p>	<p>Present The FRC jointly published a discussion paper on promoting actuarial quality in May 2008 and issued the actuarial quality framework in January 2009. We believe that, given the progress that has been made, this component is <i>largely achieved</i> at present.</p> <p>Downside Failure to establish and maintain an appropriate framework of the drivers of actuarial quality would give us <i>significant concerns</i> about the achievement of this component.</p> <p>Upside Maintaining an appropriate framework of the drivers of actuarial quality should ensure that this component is <i>largely achieved</i> over the medium term.</p>	<p>Promote the actuarial quality framework and keep it under review.</p>
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<p align="center">Supporting Outcome Four (c) Actuarial information and advice is reliable and useful. <i>(Primary responsibility: Actuaries and actuarial firms)</i></p>		
<p>Component</p>	<p>Assessment & Risk Summary</p>	<p>Activities/Projects</p>
<p>i) Actuaries apply the principles set out in actuarial standards responsibly and with integrity, and in a way that reflects the economic reality.</p>	<p>Present The 2009 Ipsos Mori survey results showed that confidence levels remains relatively high. We believe that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that actuaries and actuarial firms fail to provide sufficiently reliable and useful information and advice. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Based on the current progress in implementing the recommendations of the Morris Review, notably through the reform of actuarial standards, we believe that this component will be <i>largely achieved</i>.</p>	<p>The activities needed to achieve this supporting outcome are primarily the responsibility of individual actuaries and actuarial firms. The other supporting outcomes in Outcome Four and Outcome Five (Professionalism of actuaries) contribute to this outcome.</p>
<p>ii) Actuaries communicate clearly the underlying assumptions made and the inherent risks for a range of possible outcomes.</p>	<p>Present In July 2007, the FRC's Actuarial Stakeholder Group published the results of a Survey of the Needs of Principal Users of Actuarial Services. Some respondents identified communication as a weakness in actuarial practice. Based on this we have <i>significant concerns</i> about the achievement of this component.</p> <p>Downside There is a risk that actuaries will fail to communicate the underlying assumptions and the inherent risks clearly enough to help users respond adequately to the challenge of current economic conditions. Until the new BAS standards, with their focus on clarity of communication, are in place and are observed there will continue to be <i>significant concerns</i> in relation to the achievement of this component.</p> <p>Upside We believe that we can help ensure that this component is <i>largely achieved</i> through the establishment by the BAS of actuarial standards which promote clarity in communicating the assumptions on which actuarial information is based.</p>	<p>Keep under review guidance to actuaries on the challenges arising from tougher conditions and issue further guidance if appropriate.</p>

<p>iii) Actuaries supply relevant, reliable and comprehensible information to assist in decision-making by the principal users of actuarial advice.</p>	<p>Present The Morris Review identified significant concerns about the degree to which actuarial information is provided in a form which is sufficiently comprehensible to meet the needs of users. Until there has been further progress in the reform of actuarial standards there will continue to be <i>significant concerns</i> in relation to the achievement of this component.</p> <p>Downside There is a risk that providing information which adequately reflects the uncertainties arising from tougher economic conditions may be particularly challenging for actuaries. Based on our assessment of the likelihood and potential impact of this risk we believe that this component would be <i>unlikely to be achieved</i> in this scenario.</p> <p>Upside The BAS's aim is that users should have confidence in the reliability of actuarial information. We believe that the establishment of BAS standards which promote the provision of relevant, reliable and comprehensible information will help ensure that this component is <i>largely achieved</i>.</p>	<p>The activities needed to achieve this supporting outcome are primarily the responsibility of individual actuaries and actuarial firms. The other supporting outcomes in Outcome Four and Outcome Five (Professionalism of actuaries) contribute to this outcome.</p>
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Supporting Outcome Four (d)

There is effective scrutiny and monitoring to ensure that actuarial information is produced in accordance with the relevant technical and ethical standards.

(Primary responsibility: Institutional users of actuarial information, regulatory authorities and the actuarial profession)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) Institutional recipients and users of actuarial information know what the main drivers of quality are, and are pro-active in challenging the quality of the actuarial information they receive.</p>	<p>Present The FRC published a discussion paper on the drivers of actuarial quality in May 2008. Respondents supported these drivers and encouraged us to develop an actuarial quality framework which we published in January 2009. We still need to establish this framework as a basis for assessment of actuarial quality if we are to address the understanding gap between practitioners and users of actuarial work identified by the Morris Review. We continue to have <i>significant concerns</i> about the achievement of this component.</p> <p>Downside There is a risk that users of actuarial information are not sufficiently aware of the drivers of actuarial quality or do not effectively challenge actuarial information on the basis of the framework. This could leave users unable to assess the quality of actuarial information and affect confidence in such information. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside We believe that if, with the support of the actuarial profession and other stakeholders, we can establish the actuarial quality framework as a basis for discussion and assessment of quality in actuarial work, this will result in this component being <i>largely achieved</i>.</p>	<p><i>No significant projects planned in this year.</i></p>
<p>ii) There is a framework of effective scrutiny and monitoring which ensures that actuarial information complies with the relevant technical and ethical standards.</p>	<p>Present Responses to the POB's discussion paper on the monitoring and scrutiny of actuarial work, published in May 2008, confirmed that scrutiny of actuarial work has been significantly enhanced since the Morris Review, although there is still limited monitoring of compliance with professional standards in some areas. We continue to have <i>significant concerns</i> about the achievement of this component.</p> <p>Downside There is a risk that monitoring and scrutiny arrangements may not be adequate to identify and address material and systemic shortcomings in the quality of actuarial information and advice. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside The POB has identified a number of regulatory options and is developing recommendations to the actuarial profession. With the support of the actuarial profession and other stakeholders in implementing any necessary changes to its regulation, and measures to support existing review mechanisms, we consider that there is a reasonable prospect that this component will be <i>largely achieved</i>.</p>	<p>Make recommendations to the Actuarial Profession on professional quality assurance arrangements for actuaries and their firms.</p>

Supporting Outcome Five (a)		
Legislative provisions relating to the regulation of accountants and actuaries are effective and proportionate and appropriately implemented.		
<i>(Primary responsibility: Government)</i>		
Component	Assessment & Risk Summary	Activities/Projects
i) There is a clearly documented basis for the FRC to exercise its responsibility in relation to the accountancy and actuarial professions.	<p>Present In addition to its statutory responsibilities in relation to auditing, the POB is responsible for independent oversight of the regulation of the accountancy and actuarial professions by their professional bodies – through memorandums of understanding which include a commitment to consider carefully POB recommendations and either implement them within a reasonable period or give reasons for not doing so, on the basis that these reasons will be published. We consider that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that the accountancy and actuarial bodies may not adequately respond to the non-statutory element of the POB’s responsibilities. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Based on a continued responsible approach by the accountancy and actuarial bodies, we believe this component will continue to be <i>largely achieved</i>.</p>	<i>No significant projects planned in this year.</i>

Supporting Outcome Five (b)		
The regulatory framework promotes the integrity and competence of the accountancy and actuarial professions.		
Component	Assessment & Risk Summary	Activities/Projects
i) The accountancy and actuarial professional bodies maintain appropriate membership requirements for the accountancy and actuarial professions.	<p>Accountants</p> <p>Present The POB’s monitoring of the regulatory activities of the recognised accountancy bodies does not suggest that there are fundamental shortcomings in their membership requirements. On that basis, we consider that this component is being <i>largely achieved</i>.</p> <p>Downside Issues may emerge which weaken confidence in the effectiveness of the arrangements. Poorly focused competition between the bodies could have an adverse impact on entry requirements and would cause us to have <i>significant concerns</i> about the achievement of this component.</p> <p>Upside There is no indication that the recognised accountancy bodies will not continue to maintain appropriate membership requirements. Our assessment, therefore, is that this component will continue to be <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The POB expects to see a quickening of the pace of progress and a greater focus on the quality and outcomes of professional regulation following the recent strengthening of the independence and resources of the actuarial profession’s regulatory functions. On this basis, we consider that this component is being <i>largely achieved</i>.</p> <p>Downside Failure by the actuarial profession to ensure its professional requirements respond to ethical and technical demands on actuaries and the expectations of users could potentially create <i>significant concerns</i> in relation to the achievement of this component.</p> <p>Upside The actuarial profession is engaging constructively with the POB and we believe that this component will be <i>largely achieved</i>.</p>	<i>The activities needed to achieve this component are primarily the responsibility of the relevant professional accountancy and actuarial bodies.</i>

<p>ii) There are well-understood principles and standards of practice and ethical behaviour established in the public interest for both the accounting and actuarial professions.</p>	<p>Accountants</p> <p>Present The POB's monitoring of the regulatory activities of the recognised accountancy bodies does not suggest that there are fundamental shortcomings in the principles and standards of practice and ethical behaviour. We therefore consider that this component is being <i>largely achieved</i>.</p> <p>Downside It is possible that issues might emerge which weaken confidence in the effectiveness of the current principles and standards and cause <i>significant concerns</i> to the achievement of this component.</p> <p>Upside There is no indication that the recognised accountancy bodies will not continue to maintain appropriate principles and standards of practice and ethical behaviour. On this basis, we consider that this component will continue to be <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The Profession is consulting on a revised code of high level ethical principles and is planning to issue further ethical and conduct standards on matters such as conflicts of interest and whistle-blowing. Until this work is complete, we continue to have <i>significant concerns</i> in relation to this component.</p> <p>Downside There is a risk that the actuarial profession may not maintain and effectively promote an adequate code of ethics. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside A new principles-based code could significantly promote confidence in actuaries' understanding and handling of ethical issues and in their integrity and professionalism. It would also contribute to this component being <i>largely achieved</i>.</p>	
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<p align="center">Supporting Outcome Five (c) High standards of practice, having regard to the public interest, are achieved by accountants and actuaries, and the firms to which they belong. <i>(Primary responsibility: Accountants and Actuaries and the firms to which they belong)</i></p>		
Component	Assessment & Risk Summary	Activities/Projects
<p>i) There are adequate numbers of high quality individuals entering, and remaining in, the accountancy and actuarial professions.</p>	<p>Accountants</p> <p>Present The POB's July 2008 report on Key Facts and Trends in the Accountancy Profession illustrates the continued strength of the profession, with both student and member numbers continuing to grow, suggesting that this component is being <i>largely achieved</i>.</p> <p>Downside The increasing audit exemption threshold is likely to reduce the demand for auditors. The professional bodies should consider how they can give directors of small companies an explanation of how their members can help businesses achieve good financial management and, in so doing, provide attractive careers for their members. Failure to achieve this could create <i>significant concerns</i> about the achievement of this component.</p> <p>Upside The accountancy profession continues to attract high-quality applicants. We therefore consider that this component will remain <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The actuarial profession continues to attract high-quality applicants. We therefore consider that this component is being <i>largely achieved</i>.</p> <p>Downside The profession needs not only to maintain high standards but also to ensure that its education syllabus and processes are up-to-date and supportive. Failure to do this could cause us to have <i>significant concerns</i> in relation to the achievement of this component.</p> <p>Upside Based on the progress that is being made, we expect that this component will be <i>largely achieved</i>.</p>	<p><i>The activities needed to achieve this supporting outcome are primarily the responsibility of individual accountants and actuaries and the organisations which employ them.</i></p>

<p>ii) Accountants and actuaries maintain and develop the appropriate professional competences, and respect the public interest in, and the ethical rationale for, their work.</p>	<p>Accountants</p> <p>Present The POB is satisfied that the bodies responsible for the regulation of the training and education of accountants generally maintain appropriate competences. We believe this component is <i>largely achieved</i>.</p> <p>Downside Current economic conditions may increase the pressures on accountants to make or accept inappropriately aggressive judgements and take or support inappropriate decisions. Recent high profile frauds have highlighted this risk. In addition, there is a risk that the accountancy profession does not address issues such as the importance of accountants' work to the working of the capital markets, the role of CPD and the value of sharing experience and identifying common issues. Based on our assessment of the likelihood and potential impact of this risk we believe that this component would be <i>unlikely to be achieved</i> in this scenario.</p> <p>Upside With appropriate enforcement from the professional bodies, our assessment is that this component will continue to be <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The actuarial profession is consulting on a revised code of high level ethical principles and has recently extended its CPD requirements for actuaries holding practising certificates to cover all working members. It has introduced mandatory professionalism courses for experienced as well as new actuaries. On this basis, we consider that this component is <i>largely achieved</i> at present.</p> <p>Downside Current economic conditions may increase the pressures on actuaries to make or accept inappropriately aggressive judgements and take or support inappropriate decisions. There is also a risk that the arrangements established by actuaries and actuarial firms do not adequately respect their public interest role and accountability. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside If the profession takes appropriate action to maintain the adequacy and quality of CPD, and introduces appropriate new ethical standards to support its professionalism training, this component will continue to be <i>largely achieved</i>.</p>	
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Supporting Outcome Five (d)

Compliance with professional and ethical standards for accountants and actuaries is appropriately monitored and enforced.

(Primary responsibility: Accountancy and actuarial professional bodies and the regulatory authorities)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) The accountancy and actuarial professional bodies have effective arrangements to oversee the activities of their members and identify shortcomings in their technical performance and ethical behaviour, and have effective systems for the investigation and disciplining of such shortcomings.</p> <p><i>Primary responsibility: POB</i></p>	<p>Accountants</p> <p>Present The available evidence suggests that this component is being <i>largely achieved</i>. The POB provides independent oversight of the arrangements made by the major accountancy bodies for the education, training, discipline and professional standards of their members. By agreement, the CCAB bodies either follow our recommendations or explain publicly why they do not intend to do so. With very few exceptions, the bodies have accepted our recommendations.</p> <p>In recent years all UK professional bodies have introduced mandatory CPD which, if effectively monitored, should identify members who fail to take appropriate action to maintain their competence.</p> <p>Downside In an increasingly complex regulatory environment, there is a risk that the accountancy professional bodies fail to provide sufficient incentives for members to keep up to date. In addition, there is a risk that the recognised bodies' regulatory systems may not be able to cope with the tougher economic climate. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Through appropriate monitoring and enforcement by the professional bodies and oversight by the POB, we believe that this component will continue to be <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The Morris Review of the Actuarial Profession identified some concerns in relation to monitoring and scrutiny of professional standards and disciplinary procedures for actuaries, but supported the reforms then being introduced by the FSA and the actuarial profession. The Morris Review also made recommendations to the Pensions Regulator which was expected to adopt a risk-based approach.</p> <p>The POB is working with the regulators and the profession to assess the effectiveness of these new arrangements, and has been following up the effect of other recent reforms recommended by the Morris Review which are being considered by the POB in conjunction with the statutory regulators and the actuarial profession. The actuarial profession is also reviewing the arrangements for actuaries holding practising certificates. Whilst this work is still in progress, we consider that there are <i>significant concerns</i> in relation to the achievement of this component.</p> <p>Downside If these concerns are not addressed, there is a potential threat to confidence in the profession which would cause us to have <i>significant concerns</i> about the achievement of this component.</p> <p>Upside Depending on the outcome of our review and the acceptance of POB recommendations, a coherent, risk-based and proactive approach to the monitoring and scrutiny of actuarial work should contribute significantly to this component being <i>largely achieved</i>.</p>	<p>Monitor the regulatory activities of the accountancy and actuarial professional bodies in relation to their members.</p> <p>Monitor developments, assessing those issues that could adversely affect public confidence in accountants and actuaries and, where appropriate, undertake more detailed research and make recommendations to the professional bodies or recommend the development of new standards.</p> <p>Review the extent to which the practice assurance schemes operated by the accountancy professional bodies provide an appropriate degree of confidence in services provided by their members in practice.</p> <p>Make follow-up recommendations to the actuarial profession on professional quality assurance arrangements for pensions actuaries and their firms.</p>

<p>ii) There are effective arrangements in relation to public interest cases for the independent investigation of the conduct of members and member firms of the professional accountancy bodies and members of the actuarial professional bodies and, where appropriate, for disciplinary action.</p> <p>Primary responsibility: AADB</p>	<p>Accountants</p> <p>Present Following a detailed review of the Scheme and its operating procedures, a number of changes are being proposed to reflect the AADB’s operational experience to date, including issues raised by the Mayflower case and developments in professional disciplinary law and practice. We therefore consider that this component is being <i>largely achieved</i>.</p> <p>Downside We consider that there are two major risks in relation to this component:</p> <ul style="list-style-type: none"> • Failure to agree and implement the changes to the Accountancy Scheme will leave the AADB facing a substantial risk from costs awards which, in certain circumstances, could impact on the effectiveness of the AADB. • The regulatory framework for the enforcement of professional and ethical standards may be incomplete or may not meet the public interest. <p>Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside The proposed changes to the Scheme will reduce, although not eliminate, the risks to the AADB. They will also contribute to this component being <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The AADB has introduced a new disciplinary scheme to deal with public interest cases relating to members of the actuarial profession. The Disciplinary Board of the Profession is carrying out a review of its own schemes. We consider that this component is being <i>largely achieved</i>.</p> <p>Downside The Actuarial Scheme faces similar risks to the Accountancy Scheme. It is therefore envisaged that that once the changes proposed for the Accountancy Scheme are agreed, parallel changes will be considered for the Actuarial Scheme. Until this is implemented, and if these risks were to materialise, there are <i>significant concerns</i> about the achievement of this component in this scenario. There is also a risk to the effectiveness of the AADB if it does not appropriately support the wider regulatory framework.</p> <p>Upside The proposed changes to the Scheme would reduce, although not eliminate, the risks to increasing the effectiveness of the AADB. They would also contribute to this component being <i>largely achieved</i>.</p>	<p>Take forward initiated disciplinary cases and consider taking on additional cases as required.</p> <p>Complete the implementation of changes to the AADB Accountancy Scheme.</p> <p>Review the regulatory framework for professional discipline and enforcement of standards including the FRC’s role within the framework.</p>
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Supporting Outcome Six (a)

The FRC meets the principles of good regulation.

(Primary responsibility: FRC)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) The FRC is proportionate in its approach and operates on the basis that a well-informed market is the best regulator, making effective use of impact assessments.</p> <p>Primary responsibility: FRC</p>	<p>Present Our Strategic Framework has been updated to align more closely to the Better Regulation Commission principles of good regulation. Our overall assessment is that this component is <i>largely achieved</i>.</p> <p>Downside We believe that our regulatory approach will ensure that this component remains <i>largely achieved</i>.</p> <p>Upside We will remain committed to a regulatory approach which is proportionate and, where appropriate, principles-based. Based on this approach we believe that this component will continue to be <i>largely achieved</i>.</p>	<p>FRC will continue core management activities.</p>
<p>ii) The FRC is transparent in the way it operates, subject to necessary confidentiality, and defines the outcomes it is seeking through its Strategic Framework.</p> <p>Primary responsibility: FRC</p>	<p>Present We publish an Annual Report which includes an assessment of the FRC's performance in contributing to the achievement of the outcomes in the Framework. We believe this component is <i>largely achieved</i>.</p> <p>Downside We consult on changes to the Framework and believe that this component will be <i>largely achieved</i>.</p> <p>Upside We will continue to ensure that the Strategic Framework remains relevant and that the FRC operates transparently. On this basis, our assessment is that this component will be <i>largely achieved</i>.</p>	<p>FRC will continue core management activities.</p>
<p>iii) The FRC's regulatory activities are targeted as set out in a Plan & Budget based on the outcomes in the Strategic Framework and an assessment of the risks to their achievement.</p> <p>Primary responsibility: FRC</p>	<p>Present The Strategic Framework helps us identify major risks to confidence in corporate reporting and governance and helps us to prioritise our work. We consider that this component is <i>largely achieved</i>.</p> <p>Downside We believe that our approach to the preparation and implementation of our published plans will help us to ensure that this component will be <i>largely achieved</i>.</p> <p>Upside Based on the targeting of our activities, we believe that this component will remain <i>largely achieved</i>.</p>	<p>FRC will continue core management activities.</p>
<p>iv) The FRC is accountable, justifying its regulatory decisions and providing regular reports on its activities.</p> <p>Primary responsibility: FRC</p>	<p>Present We provide stakeholders with a range of information and hold an Annual Open Meeting. We consider, therefore, that this component is <i>largely achieved</i>.</p> <p>Downside We do not believe there are any significant risks which would prevent us being accountable in a timely and thorough manner and, therefore, consider that this component will continue to be <i>largely achieved</i>.</p> <p>Upside Based on our commitment to accountability, we believe this component will be <i>largely achieved</i>.</p>	<p>FRC will continue core management activities.</p>
<p>v) The FRC is consistent in the way it exercises its regulatory functions, and takes account of the wider legislative and regulatory framework within which its stakeholders operate.</p> <p>Primary responsibility: FRC</p>	<p>Present We are consultative in our approach to ensure that we take account of the wider legislative and regulatory framework. We therefore consider that this component is <i>largely achieved</i>.</p> <p>Downside We do not consider there are any significant risks and this component will be <i>largely achieved</i>.</p> <p>Upside For the reasons set out above, our assessment is that this component will be <i>largely achieved</i>.</p>	<p>FRC will continue core management activities.</p>

Supporting Outcome Six (b)

The FRC is recognised in the UK and globally as independent, credible, authoritative and influential.

(Primary responsibility: FRC)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) There is a statutory framework in place to provide the FRC with appropriate powers and statutory immunity, and a clearly documented basis for the non-statutory elements of its responsibilities.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present Our assessment is that this component is being <i>largely achieved</i> in terms of the statutory framework we have in place, which provides the appropriate powers and statutory immunity in relation to the FRC's responsibilities. We also have a set of functions based on agreements with the professional bodies and understandings with market participants. These are supported by adequate documentation.</p> <p>Downside There is a risk that events in the market place could reveal an unanticipated inadequacy in FRC powers. There is also a risk that the non-statutory element of the FRC's responsibilities may not be adequate to address issues which might arise. Based on our assessment of the likelihood and potential impact of these risks we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Given the general support for our role and approach within the current statutory framework, our assessment is that this component will continue to be <i>largely achieved</i>.</p>	<p>Participate in the project to be undertaken by the World Bank to review the UK's compliance with the international standards relating to accounting, auditing and corporate governance.</p>
<p>ii) The FRC's governance arrangements enable it to maintain, and demonstrate, an appropriate degree of independence from government and the regulated communities.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present The FRC's governance arrangements and the constitutional and operational arrangements of each of its Operating Bodies are such as to ensure an appropriate degree of independence from both the government and the regulated communities. On this basis, our assessment is that this component is presently <i>largely achieved</i>.</p> <p>Downside There is a potential risk that we may fail to demonstrate that we are sufficiently independent and credible in the way we work with other authorities. However, we believe that our governance arrangements are sufficiently robust to ensure that this component will continue to be <i>largely achieved</i>.</p> <p>Upside For the reasons set out above, our assessment is that this component will continue to be <i>largely achieved</i>.</p>	<p><i>FRC will continue core management activities.</i></p>
<p>iii) The FRC maintains effective working relationships with UK Government (including BERR, HMT and DWP), and other UK regulators (including FSA and the Pensions Regulator).</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present The FRC maintains good working relationships with Government and other UK regulators. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside In the medium term, inadequate consultation or communication with, or by, Government or other regulators could reduce the credibility of the FRC. We do not, however, believe that this is a significant risk and consider that this component will continue to be <i>largely achieved</i>.</p> <p>Upside Based on our close working relationships with UK Government and other UK regulators, our assessment is that this component will continue to be <i>largely achieved</i>.</p>	<p><i>FRC will continue core management activities.</i></p>

<p>iv) The FRC effectively engages with, and influences, relevant EU and global organisations, and regulatory authorities in other jurisdictions.</p> <p>Primary responsibility: FRC</p>	<p>Present The FRC plays an influential role in a wide range of international initiatives which impact on the regulation of corporate reporting and governance in the UK. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside Inappropriate interventions in international initiatives which impact on the regulation of corporate reporting and governance in the UK could compromise the effectiveness of the FRC. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Based on our continuing constructive engagement with the EU and international regulatory organisations, and regulatory authorities in other jurisdictions, our assessment is that this component will continue to be <i>largely achieved</i>.</p>	<p><i>FRC will continue to work effectively with the EU and international regulatory organisations across the full range of our activities.</i></p>
<p>v) There is a clear statement of the relevance of the FRC’s work to the public sector and other public benefit entities.</p> <p>Primary responsibility: FRC</p>	<p>Present We regularly review the relevance of our work to the public sector. An overview of FRC and the Public Sector was published in May 2007. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that the FRC could fail to reflect adequately the interests of public sector and other public interest entities in its work. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Based on our commitment to work constructively with the public sector, our assessment is that this component will continue to be <i>largely achieved</i>.</p>	<p>Review and update as necessary our published statement on the FRC and the Public Sector.</p>

Supporting Outcome Six (c)

The FRC has adequate resources and management processes and operates efficiently.

(Primary responsibility: FRC)

Component	Assessment & Risk Summary	Activities/Projects
<p>i) The FRC attracts, retains and motivates the people required to meet its objectives.</p> <p>Primary responsibility FRC</p>	<p>Present We have developed and implemented a People Strategy aimed at attracting, retaining and motivating the people we need to meet our regulatory responsibilities in an effective and timely way. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that the FRC is not able to attract high calibre candidates with the appropriate capabilities, or may lose high calibre candidates. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside In the medium term, we believe that this component will continue to be <i>largely achieved</i> through continuous improvements to various elements contributing to our People Strategy.</p>	<p><i>FRC will continue core management activities.</i></p>

<p>ii) The FRC manages information effectively and shares information as appropriate within the organisation.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present We have developed information systems to increase our effectiveness. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that information may not be managed consistently across the FRC and in accordance with statutory requirements (including the Data Protection Act and the Freedom of Information Act) and various other procedural requirements. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Our assessment is that this component will continue to be <i>largely achieved</i> by developing and enhancing information systems which meet our business needs and which are effective.</p>	<p><i>FRC will continue core management activities.</i></p>
<p>iii) The FRC secures the necessary funding and manages its costs effectively.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present After completing a consultation, we announced new arrangements for funding our core activities in relation to accounting, auditing and corporate governance in 2008. We did not identify any fundamental objections to the approach we proposed. However, we will keep our funding arrangements under review. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that we fail to collect our funding requirement. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario. Although as a last resort the Secretary of State has the power to make regulations enabling the FRC to recover its costs through a statutory levy.</p> <p>Upside Based on our experience to date, our assessment is that we will continue to obtain funding at a level which enables us to operate efficiently and effectively and that this component will continue to be <i>largely achieved</i>.</p>	<p>Implement the revised funding arrangements.</p>
<p>iv) The FRC implements activities and projects in a timely and effective way, measures its performance, and manages the risks related to its work.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present The FRC monitors the progress of activities/projects against planned targets and takes appropriate action to achieve deadlines. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside The FRC may not be sufficiently alert to, or be made aware of, relevant developments in the markets or may fail to respond appropriately to those developments. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside We have responded to this risk by ensuring that we have mechanisms in place to continue to review the impact of changes in market conditions and that our planning process is sufficiently flexible to enable us to respond to these developments. Based on our continuing commitment to effective engagement with our stakeholders and good project management, our assessment is that this component will continue to be <i>largely achieved</i>.</p>	<p>Review the adequacy of the FRC's arrangements for monitoring emerging events and appropriately prioritise our activities.</p>
<p>v) The FRC is resilient to disruptions to its activities.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present The FRC has put in place a Business Continuity Plan which we actively maintain. On this basis, our assessment is that this component is <i>largely achieved</i>.</p> <p>Downside There is a risk that disruption might occur which is not adequately addressed by our Business Continuity Plan. Based on our assessment of the likelihood and potential impact of this risk we have <i>significant concerns</i> about the achievement of this component in this scenario.</p> <p>Upside Based on the successful enhancement of our business continuity arrangements, we believe that this component will be <i>largely achieved</i>.</p>	<p><i>FRC will continue core management activities.</i></p>

Section B – Budget 2009/10

Our Financial Management and Reporting Framework provides the framework within which we manage the costs of our activities and how they are funded (<http://www.frc.org.uk/about/funding.cfm>). While we endeavour to secure value for money in all our expenditure, we believe that the cost of our core operating activities is the best indicator of our effectiveness in managing our costs.

At the time of publication of this document our financial results for 2008/09 remain subject to audit and are, therefore, described as estimates.

Summary of Expenditure

	Budget 2009/10 £m	Estimated 2008/09 £m	Budget 2008/09 £m
<i>Accounting, auditing and corporate governance</i>			
Core operating costs	12.5	11.8	11.9
Audit inspection costs	2.6	2.2	2.5
Accountancy disciplinary case costs	1.8	1.4	1.3
Review Panel case costs	—	—	—
Total	16.9	15.4	15.7
<i>Actuarial standards and regulation</i>			
Core operating costs	2.3	2.2	2.2
Actuarial disciplinary case costs	0.5	—	—
Total	2.8	2.2	2.2
Total	19.7	17.6	17.9

The core operating costs of our work on actuarial standards and regulation include a fair apportionment (£0.7m) of our support services and corporate costs. As a result, the core operating costs of our work on accounting, auditing and corporate governance are £0.7m lower than they would otherwise be.

Accounting, auditing and corporate governance

Core operating costs - analysis by category of expenditure

	Budget 2009/10 £m	Estimated 2008/09 £m	Budget 2008/09 £m
Staff costs	9.3	9.2	9.3
Accommodation costs	1.0	0.9	0.8
Professional fees	0.6	0.5	0.6
IT costs	0.6	0.5	0.5
Other costs	0.9	0.9	1.0
Contingency	0.5	—	0.3
	12.9	12.0	12.5
Sundry income	(0.5)	(0.6)	(0.7)
Capital expenditure	0.1	0.4	0.1
Total	12.5	11.8	11.9
Staff numbers	64	59	64

The increase in the 2009/10 Budget compared to the 2008/09 Budget primarily reflects:

- An annual increase in staff costs of 3%.
- An expected increase in the rent obligation under the lease at Aldwych House following the rent review in August 2009.
- An increase in the contingency allowance to £0.5m in 2009/10 to provide an additional degree of flexibility to respond to the heightened risks to confidence in corporate reporting and governance.

Core operating costs - analysis by operating unit

	Budget 2009/10		Estimated 2008/09		Budget 2008/09	
	£m	Staff	£m	Staff	£m	Staff
ASB	2.8	13	2.7	13	2.5	13
APB	1.0	5	1.0	5	1.0	6
FRRP	2.2	12	2.0	10	2.1	12
POB	1.4	8	1.3	6	1.5	8
AADB	1.4	7	1.3	5	1.3	6
CGU	0.1	1	0.1	1	0.1	1
Support Services	2.1	12	2.0	13	2.0	12
Corporate	1.5	6	1.4	6	1.4	6
Total	12.5	64	11.8	59	11.9	64

These figures show the core operating costs of each unit plus an allocation of the central overheads based on the number of full time staff in each unit. The ASB's costs include a contribution of £0.2m towards the funding of EFRAG. After a review of its activities, the AADB have recruited two additional senior lawyers.

Audit inspection costs

The only other category of activities which is subject to normal budgetary limits is the programme of independent audit inspection discussed under Supporting Outcome 3(d). The AIU is planning to operate with 20 staff in 2009/10 compared to an average of 18 in 2008/09. Additional resource is required to support the move to more transparent and public reporting.

Accountancy disciplinary case costs

Case costs incurred by the AADB are potentially volatile from year to year, depending on the number and complexity of cases and, therefore, cannot be subject to firm budgetary limits. The budget includes only a provisional estimate of costs for those cases for which the AADB has formally initiated. If other cases arise they will involve additional expenditure for which no allowance has been made in the budget. In the more difficult economic circumstances it is possible that a larger number of cases may be investigated in 2009/10.

Actuarial standards and regulation

Core operating costs

Core operating costs comprise the cost of BAS, the cost of the work undertaken by POB and AADB in relation to actuarial matters, and a fair apportionment of the cost of our support services and corporate functions (£0.7m).

The budget for core operating costs is £2.3m, representing an increase of £0.1m above the 2008/09 budget. The increase primarily reflects the full year effects of staff increases in 2009/10. We are planning to continue to operate with an average of 8 staff in 2009/10.

Actuarial disciplinary case costs

The case costs budget includes a provisional estimate of the costs to be incurred during 2009/10 in relation to an investigation which is currently underway and which is expected to continue beyond 2008/09. The actual case costs incurred may vary significantly from this estimate. If the AADB decides to investigate any other matters, this may involve additional case costs for which no allowance is made in the budget.

Section C – Abbreviations

AADB	Accountancy and Actuarial Discipline Board	FSA	Financial Services Authority
AIM	Alternative Investment Market	HMT	Her Majesty's Treasury
AIU	Audit Inspection Unit	IAASB	International Auditing and Assurance Standards Board
APB	Auditing Practices Board	IASB	International Accounting Standards Board
ASB	Accounting Standards Board	IESBA	International Ethics Standards Board for Accountants
BAS	Board for Actuarial Standards	IFAC	International Federation of Accountants
BERR	Department for Business, Enterprise and Regulatory Reform	IFRS	International Financial Reporting Standard
CCAB	Consultative Committee of Accountancy Bodies	IFRIC	International Financial Reporting Interpretations Committee
CESR	Committee of European Securities Regulators	IFIAR	International Forum of Independent Audit Regulators
CGU	Corporate Governance Unit	ISA	International Standard on Auditing
DWP	Department for Work and Pensions	POB	Professional Oversight Board
EECS	European Enforcers Co-ordination Sessions	RQB	Recognised Qualifying Body
EFRAG	European Financial Reporting Advisory Group	RSB	Recognised Supervisory Body
EGAOB	European Group of Auditors' Oversight Bodies	SARG	EU Commission Standards Advice Review Group
FASB	Financial Accounting Standards Board	SME	Small and Medium-sized Enterprises
FRC	Financial Reporting Council	SORP	Statement of Recommended Practice
FRRP	Financial Reporting Review Panel	UITF	Urgent Issues Task Force
FRSSE	Financial Reporting Standard for Smaller Entities	US GAAP	US Generally Accepted Accounting Practices

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