



FINANCIAL REPORTING COUNCIL

PLAN & BUDGET 2008/09

APRIL 2008

One – Introduction and executive summary

The FRC's aim is to promote confidence in corporate reporting and governance. This Plan & Budget needs to be read in the context of the Regulatory Strategy, which is available on our website at: <http://www.frc.org.uk/about>.

Our Regulatory Strategy, updated in November 2007, explains our role, responsibilities, governance and accountability. It sets out our regulatory approach, which is based on the Better Regulation Commission's principles of good regulation. It also contains our Strategic Framework, which was established after consultation with our stakeholders. The Strategic Framework defines the outcomes we believe contribute to confidence in corporate reporting and governance in the UK. Our approach to explaining our priorities is described in Annex B.

The Plan & Budget for 2008/09 sets out:

- our assessment of the major risks, the major activities and projects we will undertake in 2008/09, and our assessment of the major residual risks (section two); and
- our expenditure and funding in 2008/09 (section three).

We have finalised this Plan & Budget in the light of the responses to the Draft Plan & Budget which we published in January. The responses were supportive of our new approach and have made a constructive contribution to the final Plan & Budget. The responses together with a summary explaining how we took them into account in finalising the Plan & Budget are available on our website at: <http://www.frc.org.uk/about/plans>.

Our assessment of the major risks

The Plan reflects our judgements about the major risks to the achievement of the outcomes in the Strategic Framework. The most significant risks and the major activities and projects which we plan to undertake to mitigate those risks are set out in section two. Annex A sets out our risk assessments and activities and projects in more detail.

When we published the Draft Plan & Budget in January we noted that the recent credit market conditions meant that the risks to confidence in corporate reporting and governance were higher than they have been for some years. We believed that corporate reporting and auditing would be particularly challenging in the period covered by this Plan. We believed that these increased risks would require additional diligence on the part of preparers of accounts, members of audit committees and auditors.

Our current assessment is that preparers, members of audit committees and auditors have been alert to these heightened risks and responded accordingly. However, we believe that it is too soon to conclude that the risks have reverted to normal levels and we will continue to monitor developments during 2008/09. We remind market participants of the importance of disclosures relating to financing

arrangements and the risks and uncertainties in the light of credit market conditions and auditors' assessments of fair value and going concern.

In our view, based on our own assessment and the responses to our Draft Plan & Budget 2008/09, our overall Aim – confidence in corporate reporting and governance in the UK - is *largely achieved* at present. This is primarily because we believe that the Strategic Outcomes in our Strategic Framework are being *largely achieved*, with the exception of Outcome Four (Actuarial practice) where we have *significant concerns*.

Despite this positive assessment, we do not believe that there is any room for complacency in relation to our overall Aim. In particular, we believe that if the identified risks materialise the following outcomes in the Strategic Framework are *unlikely to be achieved*:

- If one or more of the Big Four firms leave the market for audit services, there would not be an efficient market due to the high degree of concentration and there could be the possibility of disruption in the supply of audit services.
- The EU might adopt standards that prohibit UK companies from complying with IFRS as published by the IASB thus making their financial reports not comparable with their peers and increase their cost of capital.
- Actuarial technical standards in key areas may fail to reflect the changing legislative and regulatory environment and may not contribute to clear and complete actuarial information.

Our major activities and projects

We believe that market participants and other agencies have the primary responsibility to respond to major risks. A significant proportion of our resources are devoted to making independent judgements about the way in which market participants have met their responsibilities.

Our planned major activities and projects represent our response to the major risks we have identified. These activities and projects relate to the elements of the Strategic Framework which are primarily the responsibility of the FRC.

Our priorities reflect our wide range of functions and responsibilities. These include functions which are supported by statutory powers or by statutory obligations on other parties to meet our requirements and/or participate in arrangements which we provide; and functions which derive their authority from widespread support from, and voluntary agreements with, our stakeholders.

Our major activities and projects are set out in section two and all of our activities and projects are set out in the work programme described in Annex A. Taken as a whole the activities and projects we have selected for inclusion in the Plan 2008/09 are intended to make a targeted and proportionate contribution to the achievement of the outcomes defined in our Strategic Framework and, therefore, to the achievement of our overall Aim – confidence in corporate reporting and governance.

A number of our planned activities and projects represent the continuation of existing initiatives. We will continue to be significantly engaged in influencing EU and global regulatory developments of importance to our stakeholders.

The proposed key themes of our work in 2008/09 are a continuation of those we pursued in 2007/08. We will:

- Lead public debate in the UK on the major issues affecting future confidence in corporate reporting and governance.
- Monitor corporate reporting and governance practices in the UK and take enforcement action where appropriate.
- Increase our participation in the development of high quality international standards and our cooperation with international regulatory organisations.
- Contribute to modifying the UK regulatory regime to take account of changes in EU and UK legislation.

In our judgement, the completion of the major activities and projects set out in this Plan, together with the activities of market participants and other authorities, will make an effective and proportionate contribution to the achievement of the outcomes and other elements in the Strategic Framework. That judgement reflects the evidence which is available to us at present. We will remain alert to developments which could require us to modify our priorities, notably in relation to the implications of the current credit market conditions.

Our assessment of the major residual risks

We are very clear that no system of regulation can ever eliminate the possibility of corporate reporting or governance failures. We believe that it is impossible to achieve zero failure and any attempt to do so would destroy wealth rather than facilitate its creation.

Successful completion by the FRC of our planned activities and projects will not guarantee the full achievement of the outcomes in the Strategic Framework. In particular, even after the completion of the activities and projects set out in the Plan, together with the activities of market participants and other authorities, we believe that there could continue to be *significant concerns* over the medium to long term arising from the high degree of concentration in the market for audit services in the UK.

Our expenditure and funding

Our expenditure and funding are set out in section three. We remain committed to providing value for money whilst remaining effective in dealing with our growing list of responsibilities and current issues. These additional responsibilities have resulted in upward pressures on our costs.

Issues with significant implications for the UK regulatory regime for corporate governance, reporting and auditing are at an important stage in the EU and globally, requiring an increase in our resources. In

relation to actuarial regulation, we need both to finalise the conceptual framework for actuarial standards and update individual standards to meet the needs of our stakeholders.

Our Budget will result in an increase of 9% in our core operating costs in relation to corporate governance, reporting and accounting to £11.9m compared to £10.9m in 2007/08, and an increase of 22% (from a small base) in core operating costs for actuarial standards and regulation to £2.2m compared to £1.8m in 2007/08.

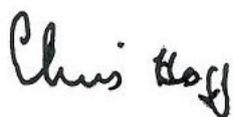
For some years the Government has contributed a third of our core operating costs in relation to our responsibilities for accounting, auditing and corporate governance. On 6 February, the Government announced that these costs should in future be funded largely by market participants. The Government has confirmed that it will continue to make a substantial contribution to our costs for at least the 2008/09 financial year although that contribution will amount to slightly less than one third. We have assumed that the short-term funding shortfall will be met in equal proportions by publicly traded companies and the accountancy profession.

The Government asked us to consult market participants on the options for new long-term funding arrangements. We are responding to the Government request in two stages:

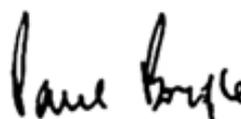
- In the first half of 2008, issuing a paper inviting views on our proposals for our future arrangements for funding our core activities in relation to accounting, auditing and corporate governance.
- In autumn 2008, issuing a further paper reporting on the feedback we have received and setting out our detailed proposals.

No changes to the arrangements for funding the FRC's responsibilities for actuarial standards and regulation are envisaged.

We will continue to operate our funding arrangements on the basis of our commitment to the principles of good regulation and ensure that they are transparent, proportionate, and cost-effective, and are subject to timely consultation.



Sir Christopher Hogg
Chairman



Paul Boyle
Chief Executive

Two – Major risks and activities and projects

This section summarises:

- our approach to setting our priorities
- the major risks we have identified to the achievement of our overall Aim and the outcomes defined in our Strategic Framework
- the major activities and projects we are proposing to implement in 2008/09 to mitigate those risks
- our assessment of the major residual risks.

Annex A sets out our detailed risk assessments and detailed work programme in relation to each element of the Strategic Framework.

Our approach to setting our priorities

Our approach to setting our priorities is set out in Annex B. It is based on our Strategic Framework, which consists of a hierarchy of four elements:

- our overall Aim – confidence in corporate reporting and governance
- the six Strategic Outcomes which contribute to our Aim
- the Supporting Outcomes which contribute to the six Strategic Outcomes
- the major Components which contribute to the achievement of the Supporting Outcomes.

The Strategic Outcomes are:

- **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.
- **Outcome Two – Corporate reporting**
Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.
- **Outcome Three – Auditing**
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.
- **Outcome Four – Actuarial practice**
Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.

- **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.

- **Outcome Six - FRC effectiveness**

The FRC is an effective, accountable and independent regulator, actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.

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

- the **present** scenario - the extent to which the outcome is achieved at present
- the **downside** scenario – which assumes that those responsible for the outcome do not take effective action to promote the achievement of the outcome or do not adequately mitigate the risks which are likely to arise
- the **upside** scenario – which assumes that those responsible for the outcome take effective action to promote its achievement and adequately mitigate the risks which are likely to arise.

We assess the achievement of each outcome as either *largely achieved* or as indicating potentially *significant concerns* or (more seriously) that the outcome is *unlikely to be achieved* if the related risks materialise. This section identifies those major risks which relate to outcomes about which there are *significant concerns* or which are *unlikely to be achieved* if the risks materialise. The section also identifies the major activities and projects included in the Plan which respond to those risks.

Our assessment of the major risks

In our view, based on our own assessment and the responses to our Draft Plan & Budget 2008/09, our overall Aim – confidence in corporate reporting and governance in the UK - is *largely achieved* at present. This is primarily because we believe that the Strategic Outcomes in our Strategic Framework are being *largely achieved*, with the exception of Outcome Four (Actuarial practice) where we have *significant concerns*.

Despite this positive assessment, we do not believe that there is any room for complacency in relation to our overall Aim. The continuing achievement of confidence in corporate reporting and governance in the UK requires a commitment on the part of the FRC and other authorities to continue to provide a regulatory framework that defines high standards in corporate governance and reporting, a commitment by those responsible for governance and the preparation of reports, audits, actuarial and other professional advice to implement those high standards, and effective monitoring and enforcement where appropriate.

When we published the Draft Plan & Budget in January we noted that the recent credit market conditions meant that the risks to confidence in corporate reporting and governance were higher than they have been for some years. We believed that corporate reporting and auditing would be particularly challenging in the period covered by this Plan. We believed that these increased risks would require additional diligence on the part of preparers of accounts, members of audit committees and auditors.

We believed that the major implications were likely to be for Strategic Outcomes Two (Corporate reporting) and Three (Auditing) but, given the pervasive nature of the risks, they might also be relevant to other outcomes.

Our current assessment is that preparers, members of audit committees and auditors have been alert to these heightened risks and responded accordingly. However, we believe that it is too soon to conclude that the risks have reverted to normal levels and we will continue to monitor developments during 2008/09 including through our reviews of corporate reports and audit inspections. We remind market participants of the importance of disclosures relating to financing arrangements and risks and uncertainties in the light of credit market conditions and auditors' assessments of fair value and going concern.

We have identified a number of major risks to the achievement of the Strategic Outcomes and related Supporting Outcomes defined in our Strategic Framework. The cumulative impact of these risks materialising could, if they are not adequately addressed by those responsible for the outcomes, lead to *significant concerns* to the achievement of our Strategic Outcomes and hence our overall Aim.

In particular, we believe that if the following significant risks materialise related outcomes in the Strategic Framework are *unlikely to be achieved*.

- If one or more of the Big Four firms leave the market for audit services, there would not be an efficient market due to the high degree of concentration and there could be the possibility of disruption in the supply of audit services (Efficient market for audit services in the UK - Outcome 3.b.iv.)
- The EU might adopt standards that prohibit UK companies from complying with IFRS as published by the IASB thus making their financial reports not comparable with their peers and increase their cost of capital (Legislative provisions are appropriately implemented - Outcome 2.a.i.)
- Actuarial technical standards in key areas may fail to reflect the changing legislative and regulatory environment and may not contribute to clear and complete actuarial information (Provision of clear and complete actuarial information - Outcome 4.a.iii.)

The risks relating to the high degree of audit concentration are so significant that if they materialise the related Supporting Outcome is *unlikely to be achieved* (Audits are undertaken by an experienced,

motivated and sceptical team within an effective firm-wide environment in audit firms and an efficient market for audit services – Outcome 3.b.)

We will also remain alert throughout 2008/09 to other developments which could require us to alter our priorities.

Our major activities and projects

We believe that market participants and other agencies have the primarily responsibility to respond to major risks. A significant proportion of our resources are devoted to making independent judgements about the way in which market participants have met their responsibilities.

Our planned major activities and projects represent our response to the major risks we have identified. These activities and projects relate to the elements of the Strategic Framework which are primarily the responsibility of the FRC.

Taken as a whole the activities and projects we have selected for inclusion in the Plan for 2008/09 are intended to make a carefully targeted and proportionate contribution to the achievement of the outcomes defined in our Strategic Framework and, therefore, to the achievement of our overall Aim – confidence in corporate reporting and governance.

Our priorities reflect our wide range of functions and responsibilities. These include functions which are supported by statutory powers or by statutory obligations on other parties to meet our requirements and/or participate in arrangements which we provide; and functions which derive their authority for widespread support from, and voluntary agreements with, our stakeholders.

A number of our proposed activities and projects represent the continuation of existing initiatives.

Key themes of our work

The key themes of our work in 2008/09 are a continuation of those we pursued in 2007/08. We will:

- Lead public debate in the UK on the major issues affecting future confidence in corporate reporting and governance.
- Monitor corporate reporting and governance practices in the UK and take enforcement action where appropriate.
- Increase our participation in the development of high quality international standards and cooperation with international regulatory organisations.
- Contribute to modifying the UK regulatory regime to take account of changes in EU and UK legislation.

Summary of major activities and projects

The following table summarises the major risks and related major activities and projects. The risks which relate to outcomes which are *unlikely to be achieved* if the risks materialise are shown in bold. The other risks represent *significant concerns*.

The risk assessments and work programme in Annex A provide further detail. The reference column refers to the relevant Component of the Strategic Framework.

Our assessment of the major risks	Our major activities and projects	Reference
Outcome One - Corporate governance		
The 2007 Review indicated that some Boards believed that some investors take a “box-ticking” approach to assessing governance requirements, which might, over time, reduce the effectiveness of the “comply or explain” approach.	<i>The activities needed to achieve this are primarily the responsibility of institutional shareholders.</i>	1.c.(ii) Page 22
There is a risk that if Boards do not provide appropriate and relevant information on companies governance practices, shareholder support for the “comply or explain” approach may be lessened.	<i>The activities needed to address these risks are primarily the responsibility of company Boards and shareholders.</i>	1.b.(iii) Page 21

Outcome Two – Corporate reporting		
Corporate reports do not contain adequate disclosures relating to financial arrangements and uncertainties in the light of credit market conditions at the time of approval of financial statements.	Review a selection of annual and interim accounts and directors' reports. This is an on-going activity. Reviews will focus on the banking, retail, leisure and travel, commercial property and house-building sectors, and on disclosures relating to financing arrangements and risks and uncertainties in the light of credit market conditions.	2.c.(i) Page 27
The EU might adopt standards that prohibit UK companies from complying with IFRS as published by the IASB thus making their financial reports not comparable with their peers and increase their cost of capital.	Influence the continued appropriate adoption of IFRS by the EU.	2.a.(i) Page 23
The cumulative impact of legal and accounting requirements could result in the provision of information by companies in a form that is overly complex and not sufficiently useful and relevant to users.	Review the complexity and relevance of the requirements relating to corporate reports and identify opportunities to improve them.	2.a.(i) Page 23

Our assessment of the major risks	Our major activities and projects	Reference
IFRS develop in ways that do not contribute to their usefulness for preparers and users of accounts.	Influence the development of IFRS.	2.a.(ii) Page 24
Convergence between UK GAAP and IFRS does not reflect the needs of UK companies, including smaller companies.	Determine the appropriate degree of convergence between UK GAAP and international standards, taking into account both the potential benefits and costs of convergence to UK preparers and users.	2.a.(iv) Page 24

Outcome Three – Auditing

The current high level of concentration in the audit market results in significant uncertainty and cost in the event of one or more of the Big Four firms leaving the market.	Monitor and implement, where appropriate, the recommendations made by the Market Participants' Group aimed at enhancing the efficiency of the audit markets and mitigating the risks associated with a major firm leaving the market.	3.b.(iv) Page 32
Auditors may not adequately address the risks arising from credit market conditions.	Monitor and report on the quality of audits of listed and other major public interest entities through a programme of inspections designed to assess both compliance with the requirements of UK regulation and the quality of audit judgements.	3.c.(ii) Page 33
A failure to recruit, develop and retain sufficient numbers of high quality individuals to conduct audits.	<i>The activities needed to address this risk are primarily the responsibility of individual auditors and audit firms.</i>	3.b.(i) Page 31
The new "Clarity" ISAs develop in ways which are not principles-based and do not promote the importance of professional judgement.	Contribute to IAASB's project to revise and clarify ISAs and work positively towards their adoption in the EU.	3.a.(ii) Page 29
The Statutory Audit Directive provisions relating to foreign auditors prove difficult to apply effectively.	Work with the EU and BERR to influence the development and implementation of legislative provisions – including the implementation of the EU Directive on Statutory Audit, with a particular focus on the provisions relating to foreign auditors.	3.a.(i) Page 28

Our assessment of the major risks	Our major activities and projects	Reference
<i>Outcome Four – Actuarial practice</i>		
Failure to reach agreement on a satisfactory conceptual framework for actuarial technical standards.	Finalise the Conceptual Framework and Scope & Authority for actuarial technical standards on the basis of the Exposure Draft published for comment in March 2008.	4.a.(ii) Page 35
Actuarial technical standards in key areas fail to reflect the changing legislative and regulatory environment.	Review existing standards and implement a plan for the transition from existing actuarial technical standards to a new book of actuarial standards based on the principles included in the Exposure Draft published for comment in March 2008.	4.a.(iii) Page 35
The Morris Review identified a number of shortcomings in the previous arrangements for scrutinising the quality of actuarial advice. The FRC is working with other bodies to assess the adequacy of the arrangements.	Publish and follow up the FRC's review of the effectiveness of monitoring and scrutiny of actuarial work by making recommendations to the actuarial profession based on consultation responses.	4.c.(ii) Page 37

<i>Outcome Five – Professionalism of accountants and actuaries</i>		
The effectiveness of the AADB could be reduced by legal challenges or costs awards.	Implement, as appropriate, any agreed changes to the independent disciplinary arrangements to deal with public interest cases involving accountants or accountancy firms or actuaries.	5.c.(ii) Page 43

<i>Outcome Six – FRC effectiveness</i>		
Aspects of FRC regulation impose disproportionate costs on regulated entities.	Implement agreed actions to improve the cost-effectiveness of FRC regulation whilst preserving confidence in corporate reporting and governance.	6.a.(i) Page 44
At Government request, we are consulting market participants on the options for new funding arrangements. There is a risk that the proposed arrangements fail to command adequate support.	In response to the Government's request, complete the consultation regarding funding the FRC's core operating activities in relation to accounting, auditing and corporate governance.	6.c.(iii) Page 48

In our judgement, the completion of the major activities and projects set out in this Plan, together with the activities of market participants and other authorities will make an effective and proportionate contribution to the achievement of the outcomes and other elements in the Strategic Framework. That judgement reflects the evidence which is available to us at present. We will remain alert to developments which could require us to modify our priorities, notably in relation to the implications of the current credit market conditions.

Our assessment of the major residual risks

We are very clear that no system of regulation can ever eliminate the possibility of corporate reporting or governance failures. We believe that it is impossible to achieve zero failure and any attempt to do so would destroy wealth rather than facilitate its creation. Successful completion by the FRC of our planned major activities and projects will not guarantee the full achievement of the outcomes in the Strategic Framework.

We have set out below our assessment of the extent to which the residual risks are such that the elements in the Strategic Framework are likely not to be achieved even if those responsible endeavour to take the actions necessary to promote the achievement of the outcomes in the Strategic Framework (the **upside** scenario). Detailed assessments of the **upside** scenarios in relation to each element of the Strategic Framework are set out in Annex A.

There is one Supporting Outcome in relation to which we have *significant concerns* even in the **upside** scenario: the residual risk we have identified relates to the efficiency of the market for audit services. Our project to monitor and implement, where appropriate, the recommendations made by the Market Participants' Group should contribute to progress in reducing the risks arising from the high level of concentration in the audit market, but only slowly. We believe, therefore, that there will remain *significant concerns* about the extent to which this Supporting Outcome is achieved as it relates to the efficiency of the market for audit services.

Three – Expenditure and funding

Our Financial Management and Reporting Framework (Annex D to our Regulatory Strategy) provides the framework within which we manage and report on the costs of our activities and how they are funded. 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 2007/08 remain subject to audit and are, therefore, described as estimates.

Summary of Expenditure

	Budget 2008/09 £m	Estimated 2007/08 £m	Budget 2007/08 £m
<i>Accounting, auditing and corporate governance</i>			
Core operating costs	11.9	10.7	10.9
Audit inspection costs	2.5	2.1	2.8
Accountancy disciplinary case costs	1.3	1.1	1.0
Review Panel case costs	-	-	-
Total	<u>15.7</u>	<u>13.9</u>	<u>14.7</u>
<i>Actuarial standards and regulation</i>			
Core operating costs	2.2	1.8	1.8
Actuarial disciplinary case costs	-	-	-
Total	<u>2.2</u>	<u>1.8</u>	<u>1.8</u>
Total	<u><u>17.9</u></u>	<u><u>15.7</u></u>	<u><u>16.5</u></u>

The core operating costs of actuarial standards and regulation include a fair apportionment (£0.7m in 2008/09) 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

Expenditure

Core operating costs

The budget for core operating costs for 2008/09 in relation to our responsibilities for accounting, auditing and corporate governance is £11.9m. The budget for 2008/09 represents an increase of 9% over the budget for 2007/08.

Analysis by category of expenditure

	Budget 2008/09 £m	Estimated 2007/08 £m	Budget 2007/08 £m
Staff costs	9.3	8.3	8.0
Accommodation costs	0.8	0.8	1.0
Professional fees	0.6	0.6	0.6
IT costs	0.5	0.5	0.5
Other costs	1.0	1.0	0.9
Contingency	0.3	-	0.3
	12.5	11.2	11.3
Sundry income	(0.7)	(0.7)	(0.5)
Capital expenditure	0.1	0.2	0.1
Total	11.9	10.7	10.9
Staff numbers	64	58	63

The increase in budgeted staff costs primarily reflects:

- the full year effects of staff increases in 2007/08 including the strengthening of the senior management structure by creating and filling the posts of Director of Auditing and Director of Reporting
- the need to continue to offer rewards that will attract and retain staff with the skills and experience needed to ensure that our work is of high quality
- the creation of new professional roles in the POB and the AADB. The POB role is a new position required to complete new regulatory tasks which have arisen as a result of the implementation of the EU Directive on Statutory Audit. After a review of its activities, the AADB plans to recruit an additional senior lawyer

- the budget includes a contribution of £0.1m of staff costs towards the funding of EFRAG. EFRAG has a significant role as the formal advisor to the European Commission regarding the adoption of IFRS
- the strengthening of our governance arrangements through the appointment of a new Board.

Accommodation costs have reduced by £0.2m as the lease on property formerly occupied by the Accountancy Foundation has been surrendered.

Other costs have increased to reflect expected recruitment costs to fill vacancies.

Analysis by operating unit

	Budget 2008/09		Estimated 2007/08		Budget 2007/08	
	£m	Staff	£m	Staff	£m	Staff
ASB	2.5	13	2.3	13	2.4	13
APB	1.0	6	1.0	6	1.2	7
FRRP	2.1	12	1.8	10	1.9	12
POB	1.5	8	1.3	6	1.3	7
AADB	1.3	6	1.0	5	1.0	6
CGU	0.1	1	0.1	1	0.1	1
Support Services	2.1	12	1.9	12	1.8	12
Corporate	1.3	6	1.3	5	1.2	5
Total	11.9	64	10.7	58	10.9	63

These figures represent the core operating costs of each operating unit plus an allocation of the central overheads based on the number of full time equivalent staff members in each operating unit.

The increases primarily relate to changes in staff costs which are described above.

Audit inspection costs

The only other category of activities which is susceptible to normal budgetary limits is the programme of independent audit inspection (Supporting Outcome 3(c)). The budget 2008/09 for the AIU has been reduced to £2.5m (a reduction of 11% compared to the 2007/08 budget) due to a reassessment of the expected costs of the proposed work programme (a number of contingencies which were included in the draft budget will no longer be required) and recognition of expected income from inspection work undertaken on a contractual basis. The AIU is planning to operate with 18 staff in 2008/09 compared to an average of 17 in 2007/08.

Accountancy disciplinary case costs

The case costs budget includes a provisional estimate of the costs to be incurred during 2008/09 in relation to five investigations which are currently underway and which are expected to continue beyond 2007/08. These are investigations concerning matters relating to the conduct of members of the accountancy professional bodies belonging to the AADB Disciplinary Scheme and/or their firms in relation to MG Rover, Langbar International Limited, Emerging Business Trust, iSoft Group plc and European Home Retail/Farepak.

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 expenditure for which no allowance is made in the budget.

Funding

Changes in Government contribution

For some years the Government has contributed a third of our core operating costs in relation to our responsibilities for accounting, auditing and corporate governance. On 6 February, the Government announced that our responsibilities for accounting, auditing and corporate governance should in future be funded largely by market participants. The Government has confirmed that it will continue to make a substantial contribution to our costs for at least the 2008/09 financial year although that contribution will amount to slightly less than one third. We have assumed that the short-term funding shortfall will be met in equal proportions by publicly traded companies and the accountancy profession. We have, therefore, prepared our budget for 2008/09 on that basis.

The Government asked us to consult market participants on the options for new funding arrangements.

We are responding to the Government request in two stages:

- In the first half of 2008, issuing a paper inviting views on our proposals for our future arrangements for funding our core activities in relation to accounting, auditing and corporate governance.
- In autumn 2008, issuing a further paper reporting on the feedback we have received and setting out our detailed proposals.

The business levy for 2008/09

We consulted on our proposals for the 2008/09 business levy in February and will finalise the levy in June.

As previously announced, it is our intention to extend the scope of the business levy in 2008/09 to UK companies traded on AIM and PLUS Markets.

Actuarial standards and regulation

Expenditure

Core operating costs

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

The budget for core operating costs is £2.2m, representing an increase of £0.4m above the 2007/08 budget, in order to provide 2 additional staff to deliver the conceptual framework and strengthen the capacity to set actuarial standards.

We are planning to operate with 8 staff in 2008/09 compared to an average of 6 staff in 2007/08.

Actuarial disciplinary case costs

During 2007/08 the scope of the AADB's work was extended to include actuaries. No investigations are currently underway so no case costs have been budgeted for in 2008/09. Case costs might be incurred if the AADB decides to investigate any matters. The costs of such cases will be met from the actuarial case cost fund.

Funding

The amount which we need to collect in relation to our work on actuarial standards and regulation is set out below:

	Budget 2008/09 £m	Estimated 2007/08 £m	Budget 2007/08 £m
Core operating costs	2.2	1.8	1.8
Actuarial disciplinary case costs fund	0.2	0.3	0.3
Recovery of set-up costs	-	0.1	0.1
Total	2.4	2.2	2.2

The core operating costs of actuarial standards and regulation include a fair apportionment (£0.7m in 2008/09) of our support services and corporate costs.

Actuarial disciplinary case cost fund

As set out in our Financial Management and Reporting Framework, we have established a fund to cover actuarial disciplinary case costs. The contribution that is required to maintain the fund at an appropriate level is reviewed each year. We expect to raise an additional contribution of £0.2m in 2008/09.

Recovery of set-up costs

We incurred set-up costs of £0.3m when we assumed responsibility for actuarial standards and regulation in 2006. These costs were fully recovered by the end of 2007/08.

Sources of funding

Our funding is obtained as follows:

- A contribution from the actuarial profession equivalent to 10% of total costs
- A levy on insurance companies in FSA fee-blocks A3 and A4, equivalent to 45% of total costs of actuarial standards and regulation, collected on behalf of the FRC by the FSA. In 2007/08 this levy was allocated to individual insurance companies in the same proportion as the FSA regulatory fees and charged to insurance companies on the same invoice as the FSA fees. We propose to calculate the levy for 2008/09 on the same basis
- A levy on Pension Schemes, on the basis of the information provided by the Pension Regulator, equivalent to 45% of total costs of actuarial standards and regulation.

We consulted on the details of our funding proposals in relation to actuarial standards and regulation in February 2008 and will finalise the rates in June.

Annex A – Risk assessments and work programme for 2008/09

This Annex sets out our risk assessments and the related activities and projects in our work programme for 2008/09 in relation to each of the Strategic Outcomes in our Strategic Framework. Annex B explains our approach to setting our priorities, and the basis on which we have prepared our risk assessments.

Our risk assessments have been updated in the light of the responses to our Draft Plan & Budget 2008/09 and other developments that have come to our attention. The assessments draw on a range of evidence, including a number of documents which are available on the FRC website, shown in bold in the text.

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. The major activities and projects identified in section two are highlighted in bold.

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 market participants are indicated through shading in grey.

Supporting Outcome One (a)
The legislative and regulatory framework for corporate governance is clear, proportionate and capable of dealing with a wide variety of circumstances and of adaptation to developments in corporate practices

(Primary responsibility: Government and regulatory authorities)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) Legislative provisions relating to corporate governance, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.</p>	<p>Present The Combined Code on Corporate Governance and the UK's "comply or explain" approach to corporate governance are designed 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. Our assessment is that the legislative framework currently provides an appropriate underpinning for this approach. We therefore consider that this outcome is being <i>largely achieved</i>.</p> <p>Downside There is a risk that, over time, the implementation of new legislative requirements may have unintended consequences which might reduce the effectiveness of the Combined Code and the "comply or explain" approach. However, we do not consider that this risk will materialise in the medium term, and we believe that this outcome will remain <i>largely achieved</i>.</p> <p>Upside We believe that this outcome will continue to be <i>largely achieved</i>. New EU requirements on corporate governance statements, audit committees and shareholder rights will be implemented in 2008. Our assessment is that the requirements will be implemented in a way that is proportionate and consistent with the Combined Code and the "comply or explain" approach. We will continue to work closely with BERR to promote a legislative framework which remains effective and proportionate. We will also continue to support, as appropriate, the work of the Pre-Emption Group.</p>	<p>Develop guidance, as necessary, in relation to changes in the Companies Act relevant to the meaning of adequate accounting records.</p> <p>Work with the EU and BERR to influence the development and implementation of legislative provisions.</p> <p>Support the Pre-Emption Group in promoting and monitoring the application of its Statement of principles.</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><i>Primary responsibility: FRC</i></p>	<p>Present The available evidence suggests that this outcome is being <i>largely achieved</i>. 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 suggested that the Code continues to have a broadly beneficial impact and contributes to higher overall standards of governance among UK listed companies. The evidence from the Review suggested that we should focus our efforts on improving the practical application of the Code as this would be of greater benefit than a major overhaul of its contents, which enjoyed broad support. Two limited changes to the Code were proposed as a result of the Review.</p> <p>The Final Report of the Market Participants Group on Choice in the UK Audit Market identified two aspects of the FRC's Guidance on Audit Committees (the Smith Guidance) that need to be reviewed: communications with shareholders on auditor selection, and the relationship between the guidance and the relevant ethical standards for auditors. In addition, we have identified a need to bring the current guidance for directors of UK listed companies on "going concern" up to date.</p> <p>Downside There is a risk that guidance for directors on "going concern" is not sufficiently up to date and fails to reflect the changing environment. If this risk materialises there would be <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside Provided that the issues noted above in relation to the Combined Code and its associated guidance are addressed, and other issues which emerge are identified and appropriately addressed, we believe it is reasonable to assume that this outcome will continue to be <i>largely achieved</i>.</p>	<p>Implement any changes to the Combined Code and other follow-up actions agreed following the 2007 review of the impact of the Code.</p> <p>Review and update as necessary the Smith Guidance.</p> <p>Review and update as necessary the current guidance for directors of listed companies on "Going Concern and Financial Reporting: Guidance for directors of listed companies registered in the UK" (issued by the ICAEW in 1994).</p>

Supporting Outcome One (b)
Boards meet the necessary high standards of performance
(Primary responsibility: Boards of primary listed companies)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) There is an adequate supply of skilled and experienced people willing to serve on Boards.</p>	<p>Present The majority of company chairs consulted as part of the 2007 Review considered that it was possible to find sufficient numbers of skilled and experienced directors, which suggests this outcome is being <i>largely achieved</i>.</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 discourage suitably qualified people from serving on Boards. If this risk materialised, we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside Our assessment is that this outcome will continue to be <i>largely achieved</i> because Boards will, in their own interests, take appropriate action to continue to recruit appropriately qualified individuals. The FRC will keep under review the impact of the Combined Code.</p>	<p>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 overall extent to which the Components accurately describe the behaviour of Boards.</p>
<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>	<p>Present Our assessment, based on responses to the 2007 Review, is that there is widespread acceptance of the Code as a basis for good practice; and this outcome is, therefore, being <i>largely achieved</i>.</p> <p>Downside There is a risk that if, over time, the Combined Code and the “comply or explain” approach do not provide appropriate standards or the necessary flexibility, they will lose credibility with Boards, who might view meeting the standards set by the Code as a compliance exercise rather than as a long-term benefit to their companies. The responses to the 2007 Review do not suggest that this is a risk that is likely to materialise over the medium term, which leads us to conclude that this outcome will continue to be <i>largely achieved</i>.</p> <p>Upside We believe that, over the medium term, this outcome will continue to be <i>largely achieved</i> because Boards recognise the advantages of the Combined Code and the “comply or explain” approach.</p>	<p>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 overall extent to which the Components accurately describe the behaviour of Boards.</p>
<p>iii) Companies provide shareholders with information on their governance and performance which is relevant, understandable and balanced.</p>	<p>Present The 2007 Review suggested that there has been a gradual but discernible improvement in the overall quality of disclosures by companies but identified a general perception among investors and other observers that there remains scope for considerable improvement. We therefore have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Downside There is a risk that if Boards do not provide appropriate and relevant information to enable shareholders to make informed judgements on a company’s governance practices, shareholder support for the “comply or explain” approach may be lessened. This situation would lead us to have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside We believe that it is realistic to expect that the majority of Boards will continue to recognise the merits of keeping shareholders appropriately informed and that the quality of disclosures by companies will improve to the extent that this outcome will be <i>largely achieved</i>.</p>	<p>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 overall extent to which the Components accurately describe the behaviour of Boards.</p>
<p>iv) Boards accept the need to engage with shareholders in dialogue on corporate governance matters.</p>	<p>Present The available evidence, based on our 2007 Review, suggests that this outcome is being <i>largely achieved</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 the risk is likely to materialise, and we consider that this outcome 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 “comply or explain” approach, which are market-based, and engage appropriately with shareholders, and that this outcome will continue to be <i>largely achieved</i>.</p>	<p>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 overall extent to which the Components accurately describe the behaviour of Boards.</p>

Supporting Outcome One (c)
Institutional shareholders regard good corporate governance as an essential basis for sustained good performance by companies
(Primary responsibility: Institutional shareholders)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) Institutional shareholders support shareholder-led enforcement of standards of corporate governance.</p>	<p>Present The available evidence suggests that this outcome is being <i>largely achieved</i>. Our 2007 Review revealed strong support among investors for shareholder-led enforcement of standards of corporate governance.</p> <p>Downside There is a risk that if Boards do not appropriately engage with shareholders, shareholder support for the “comply or explain” approach will lessen and the flexibility and low costs associated with the present approach will be compromised. If this risk were to materialise, we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside The available evidence, based on our 2007 Review, suggests that shareholders will continue to support shareholder-led enforcement of standards of corporate governance and we consider that it will be <i>largely achieved</i>.</p>	<p>The activities needed to achieve this Supporting Outcome are primarily the responsibility of institutional shareholders. The FRC will keep under review the overall extent to which the Components accurately describe the behaviour of institutional shareholders.</p>
<p>ii) Institutional shareholders support the Code, including “comply or explain”, as the best instrument for enforcing good corporate governance in listed companies.</p>	<p>Present The available evidence, based on the 2007 Review, suggests strong support among institutional shareholders for the “comply or explain” approach and that this outcome is, therefore, being <i>largely achieved</i>. Institutional shareholders are increasingly applying the Combined Code itself rather than developing their own standards.</p> <p>Downside The 2007 Review indicated that some Boards believed that some investors take a “box-ticking” approach to assessing governance requirements, which might, over time, reduce the effectiveness of the “comply or explain” approach. If this risk were to materialise, we would have <i>significant concerns</i> about the achievement of this outcome.</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, resulting in this outcome being <i>largely achieved</i>.</p>	
<p>iii) Institutional shareholders appropriately engage in dialogue with boards on corporate governance matters.</p>	<p>Present The available evidence suggests that this outcome is being <i>largely achieved</i>, and that institutional shareholders are increasing the resource they devote to engagement with Boards.</p> <p>Downside There is a risk that changes in ownership structures and an increased trend for voting and engagement activities to be outsourced, may have an adverse effect on the level of direct engagement in the medium to longer term. If this risk were to materialise, we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside We believe the available evidence suggests that the majority of institutional shareholders will continue to take the view that it is in their interests to engage actively in dialogue with Boards and that this outcome will continue to be <i>largely achieved</i>.</p>	

Supporting Outcome Two (a)

The legislative and 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: Government and regulatory authorities)

Component	Assessment & Risks Summary	Activities / Projects
<p>i) Legislative provisions relating to corporate reporting, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.</p>	<p>Present The legislative and regulatory framework for corporate reporting in the UK is increasingly determined at EU level, influenced by global initiatives. International accounting standards are intended to contribute to the broadening and deepening of capital markets with benefits to both providers and users of capital. The EU has adopted IFRS into EU legislation. Since 2005, UK-listed companies have been required to use EU-adopted IFRS in their consolidated financial statements.</p> <p>We consult closely with a range of UK stakeholders on issues in relation to the UK legislative and regulatory framework for corporate reporting. The available evidence suggests that the introduction of IFRS has been achieved without market disruption or loss of investor confidence.</p> <p>Our assessment is that this outcome is being <i>largely achieved</i> in terms of the legislative provisions that currently apply. However, the EU is continuing the process of adopting individual IFRS as EU requirements, informed by advice from EFRAG.</p> <p>Downside Although we can influence them, the final decisions on EU legislation are not within our control. There is a risk that the EU might adopt standards that prohibit UK companies from complying with IFRS as published by the IASB thus making their financial reports not comparable with their peers and increase their cost of capital. If EU and IASB versions of IFRS were to diverge further, there is likely to be an adverse impact on confidence in corporate reporting by UK companies, making this outcome <i>unlikely to be achieved</i>.</p> <p>We are also conscious that the cumulative impact of legal and accounting requirements could result in the provision of information by companies in a form that is overly-complex and not sufficiently useful and relevant for users. Such a development would threaten the achievement of the Strategic Outcome in relation to Corporate Reporting.</p> <p>Upside 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. However, our assessment is that, given the likely timescales for the development of IFRS and the adoption of individual IFRS by the EU, there may, nonetheless, continue to be uncertainties in relation to this outcome in the medium term.</p> <p>Our project to consider the relevance and complexity of corporate reporting should provide us with an enhanced understanding which may enable us to make recommendations for improving the framework for corporate reporting and contribute to the overall achievement of the Strategic Outcome in relation to Corporate Reporting. It is on this basis that we believe that this outcome will be <i>largely achieved</i>.</p>	<p>Influence the continued appropriate adoption of IFRS by the EU - Work within the EU to ensure appropriate European influence in the development of international standards, and promote their adoption by the EU. Timing of specific standards for endorsement will depend on (a) the IASB/IFRIC work programme and (b) the timetable for EU endorsement.</p> <p>Review the complexity and relevance of the requirements relating to corporate reports and identify opportunities to improve them.</p>

<p>ii) 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 outcome is <i>largely achieved</i>, based on the current framework of IFRS. However, the future development of IFRS will have a significant impact on the framework of accounting standards for a large number of UK companies – including the joint project by the IASB and US FASB to develop a common conceptual framework that both Boards can use in preparing new and revised accounting standards.</p> <p>Downside The final decisions on any IFRS are the responsibility of the IASB: we can influence but not determine them. There may be a failure to make progress in developing improved international standards; or standards might be developed in ways that do not contribute to their usefulness for preparers and users of accounts. Either of these risks could lead to <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside There is a significant 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. Assuming that the ASB will successfully influence the development and adoption of such standards, we believe that this outcome will be <i>largely achieved</i>. However, our assessment is that the complexity of the issues and likely timescales involved in developing IFRS mean that there may be continuing uncertainties in relation to this outcome.</p>	<p>Influence the development of IFRS - Influence the IASB/FASB conceptual framework project and other IASB/FASB convergence projects, plus all other IASB projects. Timing of specific standards is dependent on IASB/IFRIC work programme.</p> <p>Continue to consider the implications of the IASB/FASB conceptual framework project for public-benefit entities (with Australia, Canada and New Zealand).</p>
<p>iii) The standard-setting body plays an influential role in the development of international accounting standards, and plays an influential role in Europe.</p> <p><i>Primary responsibility: ASB</i></p>	<p>Present In 2005, the ASB issued a policy statement on its future role, emphasising its focus on contributing to the development of IFRS and working effectively with the international partnership of standard setters. 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 outcome 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. This leads us to conclude that there would be <i>significant concerns</i> about the achievement of this outcome, if this risk materialised.</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 outcome will in practice continue to be <i>largely achieved</i></p>	<p>Contribute to specific IASB projects as appropriate, in particular on leasing.</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>Analyse the responses to the PAAInE Discussion Paper on pensions and prepare a report on the outcome for probable submission to the IASB.</p>
<p>iv) 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><i>Primary responsibility: ASB</i></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 outcome is <i>largely achieved</i>. In January 2007, the ASB published an updated version of the FRSSE, the standard applied by smaller entities in preparing their financial statements.</p>	<p>Determine the appropriate degree of convergence between UK GAAP and international standards, taking into account both the potential benefits and costs of convergence to UK preparers and users.</p> <p>Maintain an appropriate regime for UK GAAP, including reviews of revisions to the FRSSE and SORPs.</p>

<p>v) There is guidance on the meaning of "true and fair" to guide preparers and to maintain confidence in the financial reporting regimes in place. <i>Primary Responsibility: FRC</i></p>	<p>Downside There is a risk that failure to implement an appropriate degree of convergence between UK GAAP and IFRS does not reflect the needs of UK companies, including smaller companies. We would therefore have <i>significant concerns</i> about the achievement of this outcome, if this risk materialised.</p> <p>Upside We believe that this outcome 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. This will need to take into account the potential benefits and costs of convergence to both UK preparers and users; and to ensure that the UK accounting regime is appropriate and proportionate in relation to the size and degree of public interest in the entities to which it applies.</p> <p>The ASB is monitoring closely 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 SME project – which will contribute to the achievement of this outcome.</p>	
<p>There is guidance on the meaning of "true and fair" to guide preparers and to maintain confidence in the financial reporting regimes in place. <i>Primary Responsibility: FRC</i></p>	<p>Present A revised statement has been published. At present therefore we consider that this outcome 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 the concept of "true and fair". Recognition of the need for professional judgement as the cornerstone in corporate reporting in the UK could also reduce. If this risk materialised we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside The continuing achievement of this outcome will require us to keep under review the usefulness of the revised statement on "true and fair". But we believe that we will maintain appropriate guidance and that this outcome will continue to be <i>largely achieved</i>.</p>	<p><i>No significant projects planned in this year.</i></p>
<p>vi) There is best practice guidance to preparers on aspects of financial reporting not covered by accounting standards, such as narrative reporting. <i>Primary Responsibility: ASB</i></p>	<p>Present The ASB has published guidance on narrative reporting and pensions disclosures, on the basis of which we regard this outcome 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 and cause us to have <i>significant concerns</i> about the achievement of this outcome.</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 outcome will continue to be <i>largely achieved</i>.</p>	<p>Maintain and effectively promote guidance on best practice in financial reporting, such as narrative reporting. Leverage our knowledge around best practice to assist and influence the IASB, as appropriate, in developing its thinking on the Management Commentary project.</p>

Supporting Outcome Two (b)

Directors strive to ensure that financial statements show a true and fair view and to embrace best practice in the provision of all information in financial reports.

(Primary responsibility: Directors, trustees etc)

Component	Assessment & Risks 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 We have assessed the achievement of this outcome on the basis that there is a requirement for audits to be undertaken and they are carried out to a satisfactory standard (Strategic Outcome Three) and there is a sufficient body of appropriately qualified accountants engaged in the preparation of reports (Strategic Outcome Five). The 2007 Ipsos MORI Stakeholder Survey summarised in our Annual Report 2006/07, the initial finding of the 2008 Ipsos MORI Stakeholder Survey, and our own monitoring activity, summarised in the FRRP activity report for 2006/07 published in October 2007, suggest that this outcome is being <i>largely achieved</i>.</p> <p>Downside Recent credit market conditions mean that the risks to confidence in corporate reporting are higher than they have been for some years. There is a risk, which might materialise in a relatively short time frame, that corporate reports may not contain adequate disclosures relating to financial arrangements and uncertainties in the light of credit market conditions at the time of approval of financial statements. If this risk materialised we would have <i>significant concerns</i> about the achievement of this outcome. Additionally, there is a risk of a failure to comply with the legal and regulatory requirements relating to corporate reports which could lead to material shortcomings in the quality of reporting; specifically, corporate reports may not adequately reflect the principal risks and uncertainties. Our monitoring activity reports regularly record minor examples of non-compliance with Companies Act requirements. While not serious in themselves, these matters could, if not subject to appropriate monitoring and publicity, lead to <i>significant concerns</i> about the culture of compliance in the UK and the achievement of this outcome.</p> <p>Upside Subject to an assessment of the risks arising from credit market conditions, the generally positive response of companies subject to challenge as a result of our monitoring activities suggests that the majority of companies will continue to regard high-quality corporate reporting as both appropriate and in their own interests and that this outcome will remain <i>largely achieved</i>.</p>	<p>The activities needed to achieve this Supporting Outcome are primarily the responsibility of Company Boards.</p> <p>Outcome Three (Auditing) and Outcome Five (Professionalism of accountants and actuaries) have important secondary roles in relation to this Outcome.</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. On the basis of that review, and the evidence of later surveys, we believe it is reasonable to assume that this outcome is <i>largely achieved</i>.</p> <p>Downside However, the ASB review also noted that companies were weaker on providing forward-looking information and identifying their principal risks and how they are managed. Failure to improve the quality of narrative reporting in these respects could, over time, lead to shortcomings in the quality of narrative information provided to shareholders and cause us to have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside The ASB review, and other surveys in 2007, noted an overall trend towards improved quality of narrative reporting. We believe that, with market encouragement, and provided that suitable guidance is maintained and there is effective monitoring in relation to narrative reporting, this outcome will continue to be <i>largely achieved</i>.</p>	

Supporting Outcome Two (c)
Financial reporting requirements are appropriately monitored and enforced.
(Primary responsibility: Regulatory authorities)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) There is an effective and efficient mechanism to ensure compliance with financial reporting requirements – which provides for risk-based targeting of information for review, and encourages open dialogue with companies and informed referrals from the investor community.</p> <p><i>Primary responsibility: FRRP</i></p>	<p>Present We believe that this outcome is being <i>largely achieved</i> through the role of the FRRP, which reviews accounts for compliance with the law and accounting standards, including the annual and interim accounts of public and large private companies and certain other listed issuers. The FRRP also reviews directors’ reports. The FRRP enquires into reports and accounts where there is, or may be, a question of non-compliance with relevant reporting requirements.</p> <p>The FRRP participates in the relevant EU groupings and promotes the benefits of the UK’s targeted and proportionate approach to ensuring compliance with financial reporting requirements.</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. To continue to enjoy the cooperation of preparers and auditors, the FRRP must retain their support and respect by high standards, professionalism, regulation and determination. Failure to meet these expectations would, in time, cause us to have <i>significant concerns</i> about the achievement of this outcome by reducing the effectiveness of the current monitoring arrangements and potentially resulting in the imposition of a more heavy-handed and bureaucratic scheme of regulation that would have significant cost implications.</p> <p>There is also a risk that Corporate reports do not contain adequate disclosures relating to financial arrangements and uncertainties in the light of credit market conditions at the time of approval of financial statements.</p> <p>Upside Our assessment is that the FRRP will continue to be recognised by the reporting community and that it will remain an effective mechanism in promoting compliance with financial reporting requirements – contributing to this outcome being <i>largely achieved</i>.</p>	<p>Review a selection of annual and interim accounts and directors’ reports.</p> <p>During 2008/09, the FRRP plans to focus on the following sectors – banking, retail, travel and leisure, commercial property and house builders. The FRRP will pay particular attention to disclosures relating to financing arrangements and risks and uncertainties in the light of credit market conditions at the time of approval of financial statements.</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> <p>Continue to work closely with other regulators, including those in other EU jurisdictions and the US, to help them understand the benefits of our approach.</p>

Supporting Outcome Three (a)

The legislative and regulatory framework provides clarity on the role and purpose of audit and the standards which auditors should meet.
(Primary responsibility: Government and regulatory authorities)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) Legislative provisions relating to auditing, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.</p>	<p>Present Our assessment is that this outcome is being <i>largely achieved</i> in terms of the legislative provisions which currently apply. Company Law has recently been revised following extensive consultation through the Companies Act 2006, which - subject to certain planned regulations - incorporates the requirements of revised EU law.</p> <p>Downside There is a risk that some of the changes might be misunderstood and therefore not appropriately implemented. This might require the development of additional guidance in relation to the implementation of the Companies Act 2006. We have some <i>significant concerns</i> regarding the implementation of the EU Directive on Statutory Audit, in particular the provisions relating to foreign auditors, which might be difficult to apply effectively.</p> <p>Upside Given the extent of recent change in Company Law, it is our assessment that there are unlikely to be major changes and that this outcome 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 - including the implementation of the EU Directive on Statutory Audit, with a particular focus on the provisions relating to foreign auditors.</p> <p>Develop guidance, as necessary, in relation to changes in the Companies Acts impacting the performance of audits.</p> <p>Participate in the work of the EGAOB.</p> <p>Continue to review scope for providing guidance on the application of the Companies Act 2006 provisions relating to auditor liability agreements and monitor developments.</p>

<p>ii) Auditing and ethical standards and guidance provide an effective framework for the expected conduct of audits, are principles-based, and serve the public interest.</p> <p><i>Primary Responsibility: APB</i></p>	<p>Present Surveyed confidence in the overall quality of audit remains high and the evidence available to the FRC from audit inspections suggests that auditing and ethical standards provide an effective framework for the conduct of audits. APB has recently undertaken a thorough review of the ethical standards and issued relatively minor revisions. On this basis we consider that this outcome is being <i>largely achieved</i>.</p> <p>Downside Existing UK auditing standards are aligned with International Standards of Auditing (ISAs) but ISAs are being revised (in part to facilitate their adoption within the EU). The international standards setter (IAASB) is under pressure from a number of regulatory bodies to increase the specificity of ISAs and is striving to find the right balance between clarity of intent and principles-based standards. The response to the FRC's 'Promoting Audit Quality' discussion paper highlighted that some respondents believe there is a risk that the new Clarify ISAs develop in ways which are not principles-based and do not promote the importance of professional judgement. The timing of the implementation of ISA in the EU is uncertain, making it difficult to prepare for their potential adoption. These factors, if they materialised, would cause us to have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside There is an opportunity to contribute to the improvement of ISAs and encourage their effective implementation while at the same time helping to achieve the wider goals of encouraging audit quality in the UK and Ireland and thereby maintaining public confidence in the audit process. The international ethics standards have moved towards the UK position; we do not therefore expect a major change to UK standards from this source. We believe in the medium term, therefore, that this outcome will continue to be <i>largely achieved</i>.</p>	<p>Contribute to IAASB's project to revise and clarify ISAs and work positively towards their adoption in the EU.</p> <p>Consider strategy for adopting ISAs in the UK if the timing of EU adoption differs from their finalisation by IAASB.</p> <p>Contribute to IESBA's project to revise and clarify the IFAC code of ethics.</p> <p>Consider the impact of the Companies Act on auditors' reports and the Audit Quality Forum's proposals for additional information to be included in such reports.</p> <p>Update industry-specific auditing Practice Notes.</p>
<p>iii) The standard-setting body plays an influential role in the development of international auditing and ethical standards 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 outcome 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. If this risk materialised we would have <i>significant concerns</i> about the achievement of this outcome.</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 outcome will continue to be <i>largely achieved</i>.</p>	<p>Contribute to the EGAOB's ISA sub-group to provide technical advice on the implementation of ISAs in Europe.</p>
<p>iv) There is guidance on the key drivers of audit quality.</p> <p><i>Primary Responsibility: FRC</i></p>	<p>Present Following extensive consultation on its publication, Promoting Audit Quality, the FRC has issued a framework describing the key drivers of audit quality. On this basis, our assessment is that this outcome is being <i>largely achieved</i>.</p> <p>Downside There is a risk that auditors and audit committees do not sufficiently embed the guidance into their practices. The drivers of audit quality may change; particularly in a dynamic economic environment. There is a risk that the guidance may lose relevance if it does not adequately reflect these changing circumstances and if this materialised, we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside The Audit Quality Framework, published in February 2008, is intended to be a dynamic concept that will be updated as and when appropriate. On this basis, we believe that this outcome will continue to be <i>largely achieved</i>.</p>	<p>Review how the audit quality framework is being used by audit committees.</p> <p>Ensure that the AIU has regard to the Audit Quality Framework in reviewing and reporting on audit quality.</p>

<p>v) Recognised supervisory and qualifying bodies have effective regulatory systems in place to support high quality audits.</p>	<p>Present The POB's Report to the Secretary of State for Business, Enterprise and Regulatory Reform 2006/07 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 POB's 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. If this materialised, we would have <i>significant concerns</i> about the achievement of this outcome.</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 outcome will continue to be <i>largely achieved</i>.</p>	<p>The activities needed to achieve this Component are primarily the responsibility of the relevant professional accountability bodies.</p>
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Supporting Outcome Three (b) Audits are undertaken by an experienced, motivated and sceptical team within an effective firm-wide environment in audit firms and an efficient market for audit services. (Primary responsibility: Auditors and audit firms)		
Component	Assessment & Risks Summary	Activities/Project
<p>i) Audit provides 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 latest survey of Key Facts and Trends in the Accountancy Profession reports the continued strength of the UK accounting profession, the growth of which reflects the attractiveness of the profession to new recruits both in the UK and internationally. On this basis, our assessment is that this outcome is <i>largely achieved</i>.</p> <p>Downside Increases in audit exemption thresholds have reduced the number of statutory audits significantly making 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 we would have <i>significant concerns</i> over the achievement of this.</p> <p>Upside Professional bodies, auditors and other stakeholders have demonstrated a willingness to work together to address issues relevant to this outcome. Based on our view of the continuing strength of the accounting profession in the UK, our assessment is that this outcome will continue to be <i>largely achieved</i>.</p>	<p>The activities needed to achieve this Supporting Outcome are primarily the responsibility of individual auditors and audit firms. Outcome Five (Professionalism of accountants and actuaries) contributes to this Outcome.</p>
<p>ii) Audit firms ensure that audit teams 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 Audit Inspection Unit of the POB publishes reports on the findings from its audit quality inspections. The AIU's 2007 Public Report concluded that the quality of auditing in the UK was fundamentally sound. On this basis, our assessment is that this outcome is <i>largely achieved</i>.</p> <p>The implementation and application of the ISAs (UK and Ireland) was a key area of focus of the AIU's inspection visits in 2006/7 and it has made recommendations in relation to the firms' methodologies and systems as well as the training required for staff particularly in relation to the audit risk and fraud ISAs (UK and Ireland). Those particular ISAs (UK and Ireland) contained a number of new requirements and the AIU considered further work was required by the firms to embed these requirements within their audits.</p> <p>The AIU noted that 2006/07 had been a challenging year for the audit firms given the implementation of IFRS and the first full year of application of the ISAs (UK and Ireland) and the APB Ethical Standards, and acknowledged the considerable effort made by firms to respond to the challenges arising from these changes.</p> <p>In relation to the implementation of IFRS, the AIU was satisfied with the audit work and accordingly made no recommendations on this issue. In the AIU's view this reflected both the significant level of resources allocated and the robustness of the approach taken by firms to the challenges presented by the implementation of IFRS.</p> <p>The AIU noted the progress made by all firms in addressing prior year recommendations. The AIU noted in particular the positive response by all firms to its recommendations, with few instances being identified where no action has been taken to implement them.</p> <p>The FRC's Promoting Audit Quality consultation indicated some concerns regarding the way audits are undertaken in practice.</p>	

	<p>Downside There is a risk that auditors may not adequately address the risks arising from market turbulence. There are risks that auditors are ill-prepared for future changes in auditing standards and that the quality of audit declines because auditors and audit committees fail to place sufficient emphasis on professional judgement and the audit quality framework. There is a specific risk that auditors might fail to develop sufficient expertise to deal with the increasing use of fair-value accounting and a general risk that audit firms might not assign staff with sufficient experience to complete quality audits. If these risks materialised, we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside The AIU's 2007 Public Report highlighted a number of areas for improvement; but there were no major indicators to suggest that the quality of audits will diminish. Our assessment is that this outcome will continue to be <i>largely achieved</i> because audit firms will, in their own interests, take action to ensure that audit teams have sufficient capability and competence.</p>	
<p>iii) Auditors should report appropriately to shareholders and communicate effectively with audit committees.</p>	<p>Present The AIU's 2007 report concluded that the overall quality of reporting to audit committees had improved. It also noted a generally high standard of reporting to audit committees. The AIU report also highlighted instances, for all types of entities, where information had not been communicated to audit committees. Some stakeholders believe that there is a need to add clarity and usefulness to auditors' reports (see 3.a.ii). However, responses to the 'Promoting Audit Quality' discussion paper highlighted the need to review the steps that can be taken to add to the clarity and usefulness of auditors' reports within the constraints of current and likely future legislation. Overall, however, we believe that this outcome is being <i>largely achieved</i>.</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 the auditors' report might not be sufficiently clear and useful. If these risks materialised, we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside APB's consultation on the clarity and usefulness of auditors' reports should provide an enhanced understanding which will enable us to make appropriate recommendations. On this basis, it is reasonable to believe that this outcome will continue to be <i>largely achieved</i>.</p>	
<p>iv) There is an efficient market for audit services in the UK.</p>	<p>Present The Market Participants Group's final report on Choice in the UK Audit Market noted that due to the level of auditor concentration there was a high degree of concern amongst market participants over the uncertainties and costs that could arise in the event of one or more of the Big Four firms leaving the market. On the evidence provided in this report, we believe that there are <i>significant concerns</i> in relation to the achievement of this outcome.</p> <p>Downside The risks relating to auditor concentration are likely to continue for the medium term and there could be developments in the market for audit services in the UK which could further reduce its efficiency. If these risks materialise, this outcome is <i>unlikely to be achieved</i>. The Market Participants Group's report set out actions that could be taken by market participants working collectively, some of which require support from regulators, to allow the market to work more efficiently. It should have a positive impact on the degree of concentration in the supply of audit services, reduce the risk of a firm leaving the market without good reason and contribute to mitigating the uncertainty and disruption costs in the event of a firm leaving the market.</p> <p>Upside The implementation of the Market Participants Group recommendations should contribute to progress on reducing this risk, but only slowly. We believe, therefore, that there will be <i>significant concerns</i> about the extent to which this outcome is achieved.</p>	<p>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>

Supporting Outcome Three (c)
Auditing requirements are appropriately monitored and enforced
(Primary responsibility: Audit committees and regulatory authorities)

Component	Assessment & Risks 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 most respondents considered that the introduction of audit committees had added credibility to the financial reporting process and provided a degree of reassurance to investors. The feedback suggested that this outcome 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 and the breadth of their responsibilities could mean that they have little time to undertake sufficiently thorough evaluations.</p> <p>Downside Audit committees might fail to embed the quality framework in their review of audit effectiveness. However, we do not consider this to be a significant risk and believe that this outcome will continue to be <i>largely achieved</i>.</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 outcome will continue to be <i>largely achieved</i>.</p>	<p>Promote awareness among audit committees of the audit quality framework.</p> <p>Review the implementation of regulations and practice on transparency reporting by firms.</p>
<p>ii) Audit monitoring focuses on the drivers of audit quality and the professional judgements exercised at both the firm-wide and engagement level.</p> <p><i>Primary Responsibility: POB</i></p>	<p>Present The POB's report to the Secretary of State suggested that this outcome is <i>largely achieved</i>. 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.</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. Given the possibility that auditors may not adequately address the risks arising from credit market conditions, auditors and the monitoring regime may come under increased pressure on significant audit judgements. If these risks materialised we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside Increased transparency of reporting by the AIU will better enable audit committees to provide effective oversight of the audit process and result in this outcome continuing to be <i>largely achieved</i>.</p>	<p>Undertake inspection visits to the largest audit firms</p> <p>Review a selection of audits undertaken by other audit firms of listed companies, and other entities in which there is a major public interest.</p> <p>Report publicly on the results of AIU monitoring.</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><i>Primary Responsibility: POB</i></p>	<p>Present The available evidence suggests that this outcome is being <i>largely achieved</i>. The POB's 2006/07 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 POB's 2006/07 report did, however, identify some areas for improvement. If these improvements are not made, and the RSBs do not respond appropriately to future recommendations we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside Based on a continued responsible approach by the RSBs, we consider that this outcome is likely to continue to be <i>largely achieved</i>.</p>	<p>Statutory oversight of the regulatory processes of the RSBs and RQBs.</p>

Supporting Outcome Four (a)

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

(Primary responsibility: Government and regulatory authorities)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) Legislative provisions relating to actuarial practice, originating in the UK or in the EU, are effective and proportionate and appropriately implemented.</p>	<p>Present The Morris Review of the Actuarial Profession, published in March 2005, recommended significant reforms to actuarial standards and regulation. HM Treasury asked the FRC to take on the role of setting actuarial standards and overseeing the regulatory activities of the actuarial profession.</p> <p>The regulatory regime that the FRC implemented from April 2006 is based on a formal understanding with the actuarial profession, which includes an understanding that members of the actuarial profession will comply with the standards set by the FRC through the BAS and the oversight arrangements established by the POB. As part of this understanding, the BAS inherited the framework of actuarial standards which had been established by the actuarial profession. It is intended that BAS standards will apply alongside the requirements of the relevant legislation and the statutory regulators – the FSA and the Pensions Regulator.</p> <p>The non-statutory basis for the arrangements introduced in 2006 will be reviewed after two/three years of operation. Depending on the outcome of the review, HM Treasury will consider the case for introducing statutory arrangements. Until this review is complete we will continue to have <i>significant concerns</i> about the achievement of this outcome although we have benefited from the support of the actuarial profession and have established good working relationships with the relevant Government Departments and other regulatory authorities; and we have made reasonable progress in establishing the role of BAS, the POB and the AADB. However, we have not yet reached the stage at which we can regard this outcome as being largely achieved.</p> <p>Downside A key element of the process of establishing the new regulatory regime is the need to ensure that it contributes appropriately to the quality of actuarial practice and the wider legislative and regulatory framework within which actuaries operate (including pensions legislation). Failure to achieve this would represent a <i>significant concern</i> in relation to the achievement of this outcome.</p> <p>Upside Subject to the understanding that the regulatory arrangements that the FRC has put in place will be reviewed after two/three years, we believe that this outcome will 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 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 A key recommendation of the Morris Review was that there should be a conceptual framework to underpin the reform of actuarial standards. We have successfully consulted on the paper 'Towards a Conceptual Framework', which we believe addresses the remit of the Morris Review recommendations. We also issued, in March 2008, an Exposure Draft of a Conceptual Framework and Scope & Authority for actuarial technical standards. Based on the comments received from the consultation exercise, we believe that this outcome is being <i>largely achieved</i>.</p> <p>Downside Failure to reach agreement on a satisfactory conceptual framework for actuarial technical standards would result in <i>significant concerns</i> in relation to the achievement of this outcome.</p> <p>Upside Agreement on a satisfactory conceptual framework to underpin the reform of the framework of actuarial standards should help promote information that is complete, transparent and comprehensible and address the number of general shortcomings in the actuarial standards promulgated by the actuarial profession which were identified by Morris. On this basis, we would regard this outcome as <i>largely achieved</i>.</p>	<p>Finalise the Conceptual Framework and Scope & Authority for actuarial technical standards on the basis of the Exposure Draft published for comment in March 2008.</p>
<p>iii) 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. We are publishing a consultation paper on the new structure and reporting in April 2008 and are developing a plan for the transition from existing standards to the new structure. However, until substantial progress has been made in developing actuarial technical standards which are consistent with the conceptual framework, there are <i>significant concerns</i> about the achievement of this outcome.</p> <p>Downside There is a risk that actuarial technical standards in key areas fail to reflect the changing legislative and regulatory environment. If this risk materialises, this outcome is <i>unlikely to be achieved</i>.</p> <p>Upside Given that we are making satisfactory progress towards agreement on the conceptual framework, we consider it is reasonable to expect that we will have <i>largely achieved</i> this outcome.</p>	<p>Review existing standards and implement a plan for the transition from existing actuarial technical standards to a new book of actuarial standards based on the principles included in Exposure Draft published for comment in March 2008.</p> <p>Develop a new standard on information to be included in actuarial reports and issue consultation papers on further generic standards.</p>
<p>iv) 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 closely with the DWP, HM Treasury, the FSA, the Pensions Regulator, the POB and the actuarial profession, in connection with the development of relevant legislation and regulatory requirements. However, there are a number of issues which are under discussion and until these are resolved, there are still <i>significant concerns</i> about the achievement of this outcome.</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 outcome.</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 outcome will be <i>largely achieved</i>.</p>	<p>Work with the statutory regulators to ensure continuity between their requirements and BAS standards.</p>

Supporting Outcome Four (b)
Actuarial information is provided to a consistently high quality standard.

(Primary responsibility: Actuaries and actuarial firms)

Component	Assessment & Risks Summary	Activities/Projects
<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 Morris Review considered that there was no reason to doubt that the overwhelming majority of actuaries in the UK were anything other than dedicated, skilled professionals, providing important and useful advice with commitment, integrity and a strong sense of professional duty. It did, however, raise issues about the clarity and consistency with which actuaries communicated actuarial information. The 2007 Ipsos Mori survey of confidence in corporate reporting and governance suggested reasonable levels of confidence in actuarial information (this is supported by the initial finding of the 2008 Ipsos Mori survey), though some respondents suggested that confidence had declined over the last four years. Based on this evidence, we believe that this outcome is being <i>largely achieved</i>, subject to the need to address the issues identified in the Morris Review.</p> <p>Downside A failure to address the issues identified in the Morris Review would, in the medium term, represent a <i>significant concern</i> in relation to the achievement of this outcome.</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 outcome 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 the evidence of this survey we have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Downside There is a risk that if the new structure of BAS standards, with its focus on clarity of communication, is not in place there would continue to be <i>significant concerns</i> in relation to the achievement of this outcome.</p> <p>Upside We believe that the proposed conceptual framework will give coherence and consistency to BAS standards and help ensure that this outcome is <i>largely achieved</i> through the establishment of actuarial standards which promote clarity in communicating the assumptions on which actuarial information is based.</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 the conceptual framework is in place and there is further progress in the reform of actuarial standards there will continue to be <i>significant concerns</i> in relation to the achievement of this outcome.</p> <p>Downside Failure to incorporate within the conceptual framework and individual BAS standards specific reporting mechanisms to strengthen clarity of communication could result in continuing <i>significant concerns</i> in relation to the achievement of this outcome.</p> <p>Upside The BAS's aim is that users should have confidence in the reliability of actuarial information. We believe that the proposed conceptual framework will give coherence and consistency to BAS standards and help ensure that this outcome is <i>largely achieved</i> through the establishment of standards which promote the provision of relevant, reliable and comprehensible information.</p>	

Supporting Outcome Four (c)
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 & Risks 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 Morris Review identified a significant understanding gap between actuaries and users of actuarial information. There are some materials available, such as the Pensions Regulator’s Trustee Toolkit which provides general guidance to pension trustees on the use of advisers including actuaries. However, there is, at present, no consensus on the drivers of actuarial quality which would provide a clear and reasonably objective basis on which insurance directors or pension trustees could challenge the quality of actuarial information. In July 2007, the FRC’s Actuarial Stakeholder Group Survey of the Needs of Principal Users of Actuarial Services suggested that insurance directors are more confident than pension trustees in this regard. On this basis, we have <i>significant concerns</i> about the achievement of this outcome at present.</p> <p>Downside Failure to provide appropriate guidance on the drivers of actuarial quality could leave users unable to assess effectively the quality of actuarial information and affect confidence in such information. This situation would result in us having <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside We believe that, with the support of the actuarial profession and on the basis of the proposed conceptual framework, we will be able to provide appropriate guidance on a framework of the drivers of actuarial quality which will result in this outcome being <i>largely achieved</i>.</p>	<p>Publish a discussion paper on the drivers of actuarial quality.</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 The Morris Review identified a number of shortcomings in the previous arrangements for scrutinising the quality of actuarial advice but supported the reforms then being introduced by the FSA and the actuarial profession. It also made recommendations to the Pensions Regulator which was expected to adopt a risk-based approach, and invited the FRC to work with the other bodies to assess the adequacy of the new arrangements. Until we have consulted and followed up on this work, there are still <i>significant concerns</i> about the achievement of this outcome.</p> <p>Downside The Morris Review identified a number of shortcomings in the previous arrangements for scrutinising the quality of actuarial advice. The POB is currently working with other bodies to assess the adequacy of the arrangements; however, until our consultation is complete, there will continue to be <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside We have benefited from the actuarial profession’s positive and constructive engagement with the process of establishing the new regulatory regime and ensuring that their members comply with the standards set by the BAS. We consider that there is a reasonable prospect that this outcome will be <i>largely achieved</i>.</p>	<p>Publish and follow up the FRC’s review of the effectiveness of monitoring and scrutiny of actuarial work by making recommendations to the actuarial profession based on consultation responses.</p>

Supporting Outcome Five (a)
There is an effective legislative and regulatory framework for the regulation of accountants and actuaries.
(Primary responsibility: Government and regulatory authorities)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) The accountancy and actuarial professional bodies maintain appropriate requirements for membership of the accountancy 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 membership requirements. We therefore consider that this outcome is being <i>largely achieved</i>.</p> <p>Downside The POB's monitoring of the regulatory activities of the recognised accountancy bodies, while identifying areas for improvement, does not indicate fundamental shortcomings, though it is possible that issues may emerge which weaken confidence in the effectiveness of the current arrangements. Poorly focussed 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 outcome.</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 outcome will continue to be <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The Morris Review identified shortcomings in the training of actuaries and other regulatory arrangements such as CPD, but supported reforms then being proposed by the actuarial profession. The POB reported in December 2006 that the profession had implemented most of these reforms, although work was needed to ensure that they were consolidated and effective. The POB reported again in January 2008 and expects to see a quickening of the pace of progress and a greater focus on the quality and outcomes of professional regulation once the Profession has introduced its planned new organisational structure in the spring of 2008. On this basis, we consider that this outcome is being <i>largely achieved</i>.</p> <p>Downside Failure by the actuarial profession to place a greater emphasis on quality and outcomes could potentially create <i>significant concerns</i> in relation to the achievement of this outcome.</p> <p>Upside However, the actuarial profession is engaging constructively with the POB and we believe that this outcome will be <i>largely achieved</i>.</p>	<p>The activities needed to achieve this Component are primarily the responsibility of the relevant professional accountancy and actuarial bodies.</p>

<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. It is on this basis that we consider that this outcome 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> in the achievement of this outcome.</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. We therefore consider that this outcome will continue to be <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The Morris Review noted weaknesses in ethical guidance for actuaries, particularly in relation to conflicts of interest for pensions actuaries, and existing standards are not well understood. The POB reinforced the Morris Review's recommendations in this area in December 2006 and, although the Profession has consulted on a principles-based Code, the POB has expressed concerns about the Profession's initial consultation in a letter published in December 2007. Until this work is complete, we continue to have <i>significant concerns</i> in relation to the achievement of this outcome.</p> <p>Downside If the practice and public-interest issues identified by the POB in relation to the new code are not adequately addressed there is a risk that the new code could serve to reduce rather than enhance confidence in the integrity of actuaries. If this risk materialised, we would have <i>significant concerns</i> in relation to the achievement of this outcome.</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 outcome being <i>largely achieved</i>.</p>	<p>The activities needed to achieve this Component are primarily the responsibility of the relevant professional accountancy and actuarial bodies.</p>
<p>iii) Standards for reporting on investment circulars, and other assurance services, provide an effective framework for the work undertaken, are principles-based and serve the public interest. <i>Primary responsibility: POB/APB</i></p>	<p>Present A revised set of standards in relation to accountant's reporting on investment circulars was issued in 2006. In relation to other assurance services there is currently uncertainty over whether, as an alternative to an audit, a new assurance service should be created for small entities. There is a risk that users may not be sufficiently clear about the nature of the non-audit work performed by accountants and for this reason we have <i>significant concerns</i> over the achievement of this outcome.</p> <p>Downside We will continue to have <i>significant concerns</i> over the achievement of this outcome as long as the uncertainty described above exists. There is also a risk that different services are developed by the different accountancy professional bodies which cause confusion to companies and users and erode perceptions of the value of audit.</p> <p>Upside The FRC and the accountancy bodies could work together to establish a basis for reporting on non-audit engagements related to financial statements provided to smaller entities which is understood by users and consistently applied by accountants. This would in due course result in this outcome being <i>largely achieved</i>.</p>	<p>Review and report on the progress made by accountancy bodies in implementing the recommendations of the FRC's 2006 review of how accountants support the needs of small and medium sized companies and their stakeholders.</p>

Supporting Outcome Five (b)
Accountants and actuaries, and the firms to which they belong, meet high standards of practice and ethical behaviour, and have regard to the public interest.
(Primary responsibility: Accountants and Actuaries and the firms to which they belong)

Component	Assessment & Risks 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 2007 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. We therefore consider that this outcome is being <i>largely achieved</i>.</p> <p>Downside As a result of increasing audit exemption thresholds there is likely to be a reduction in the demand for auditors. The professional bodies need to consider how, on an on-going basis, the profession can give directors of small companies a clear explanation of how professional accountants can help businesses to use accountancy information to achieve good financial management and, in so doing, provide attractive careers for their members. Failure to achieve this would cause us to have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside In our view, there is no indication that the accountancy profession should not continue to attract high quality individuals, and this outcome will, therefore, continue to be <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The actuarial profession continues to attract high-quality applicants. The actuarial profession has recently updated its education and training, and taken a number of other steps supported by the Morris Review to help reduce qualification times without compromising quality. We therefore consider that this outcome is being <i>largely achieved</i>.</p> <p>Downside A failure to recruit and retain sufficient numbers of high quality individuals to the actuarial profession, with consequent risks to the achievement of other Outcomes, including Outcome Four (Actuarial practice). The profession will, however, need 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 outcome.</p> <p>Upside Based on the progress that is being made and enhanced focus on the quality and outcomes of its education processes, we expect that this outcome will be <i>largely achieved</i>.</p>	<p>The activities needed to achieve this Supporting Outcome are primarily the responsibility of individual accountants and actuaries and the organisations which employ them.</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 RQBs meet their statutory obligations in relation to audit regulation, and that the bodies responsible for the regulation of the training and education of accountants generally maintain and develop appropriate professional competences. The POB's 2005 Review of Training and Education in the Accountancy Profession acknowledged that the arrangements for training and educating accountants were generally successful. While identifying areas for improvement, we consider that this outcome is being <i>largely achieved</i>. However, it is possible that issues may emerge which weaken confidence in the effectiveness of the current arrangements.</p>	

Downside The POB's 2005 Review recommended certain improvements in terms of awareness of the importance of accountants' work to the effective working of the capital markets, the importance of continuing professional development and the value of sharing experience and identifying common issues across the profession. If the accountancy profession does not address, or continue to address, these issues – for example, in ensuring that accountants keep up-to-date with new standards – we would have *significant concerns* about the achievement of this outcome.

Upside With appropriate enforcement from the professional bodies, our assessment is that this outcome will continue to be *largely achieved*.

Actuaries

Present In 2006, the actuarial profession extended its existing CPD requirements for actuaries holding practising certificates to cover all its working members and is currently involved in a review of its arrangements. On this basis, we consider that this outcome is *largely achieved* at present.

Downside The POB has urged the profession to review the quality and outcomes of CPD requirements for actuaries holding practising certificates in order to ensure that confidence in actuaries performing public interest roles is not undermined. Failure to do this would cause us to have *significant concerns* in relation to the achievement of this outcome.

Upside Provided that the profession takes appropriate action to maintain the adequacy and quality of CPD requirements, we expect that this outcome will continue to be *largely achieved*.

Supporting Outcome Five (c)
Compliance with professional and ethical standards for accountants and actuaries is appropriately monitored and controlled.
(Primary responsibility: Accountancy and actuarial professional bodies and the regulatory authorities)

Component	Assessment & Risks 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 outcome 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. This remit is carried out through in-depth projects, which have taken between six and twelve months to complete. By agreement, the CCAB bodies either follow our recommendations or explain publicly why they do not intend to do so.</p> <p>We believe that our first three years of oversight activity have helped to ensure that clients and employers of professionally qualified accountants can continue to rely on them to act with integrity and competence, and with regard to the public interest. With very few exceptions, the bodies have accepted our recommendations. Their implementation work has sometimes taken longer than we expected, and in some areas has not been as comprehensive as we had intended, but we believe that it has still resulted in tangible improvements. 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>Beyond responding to complaints, there is limited activity by the professional bodies to identify shortcomings in members' technical performance outside of professional practice. The POB's review in 2006 into how accountants serviced the needs of small and medium-sized entities noted that the vast majority of company directors interviewed said that the accountancy profession offered appropriate support for their accountancy and auditing needs. However, the review also identified that a sizeable minority of the sets of accounts reviewed appeared to include more significant technical issues, material computational errors or other evidence of a lack of care in preparation.</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. If this risk materialised, we would have <i>significant concerns</i> in relation to the achievement of this outcome.</p> <p>Upside Through appropriate monitoring and enforcement by the professional bodies and oversight by the POB, we believe that this outcome will continue to be <i>largely achieved</i>.</p> <p>Actuaries</p> <p>Present The Morris Review 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. It also made recommendations to the Pensions Regulator which was expected to adopt a risk-based approach.</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 progress made by the taskforce established to consider IES 8, the training of auditors and how audit fieldwork is undertaken.</p> <p>Follow up the FRC's current review of monitoring and scrutiny of actuarial work, in the light of consultation responses and progress other recommendations.</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><i>Primary responsibility:</i> AADB</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 outcome.</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 outcome.</p> <p>Upside Depending on the outcome of our review and the acceptance of any of the POB recommendations, a coherent, risk-based and proactive approach to the monitoring and scrutiny of actuarial work should contribute significantly to this outcome being <i>largely achieved</i>.</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 outcome is being <i>largely achieved</i>.</p> <p>Downside The AADB is currently exposed to a number of risks including, in particular, the risks of its decisions being subject to legal challenge and the risk of adverse cost awards if disciplinary complaints are not upheld by a tribunal. The effectiveness of the AADB could be reduced by the legal challenges or costs awards, if these risks are not mitigated there would be <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside The proposed changes to the Scheme will reduce, although not eliminate, the risks to the effectiveness of the AADB. They will also contribute to this outcome 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 outcome is being <i>largely achieved</i>.</p> <p>Downside The Actuarial Scheme faces similar risks to the Accountancy Scheme. It is therefore proposed that the changes proposed for the Accountancy Scheme will, once agreed, be reflected in full in the Actuarial Scheme. Until this is implemented, there are <i>significant concerns</i> about the achievement of this outcome.</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 outcome being <i>largely achieved</i>.</p>	
		<p>Take forward the investigations relating to Langbar, MG Rover, EBT, iSoft and European Home Retail/ Farepak.</p> <p>Consult with relevant accountancy bodies, the actuarial profession, key interested parties and the public on the proposed changes to the Scheme.</p> <p>Implement, as appropriate, any agreed changes to the independent disciplinary arrangements to deal with public interest cases involving accountants or accountancy firms or actuaries.</p>

Supporting Outcome Six (a)
The FRC meets the principles of good regulation, and is transparent and accountable
(Primary responsibility: FRC)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) The FRC has in place and consistently implements policies on good regulation, including effective use of regulatory impact assessments and having particular regard to the impact of regulation on small enterprises.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present Our regulatory approach is based on the Better Regulation Commission principles of good regulation and our Strategic Framework emphasises the importance of a proportionate regulatory regime. We complete a thorough consultation process in relation to all our proposals. We have consulted on the scope for improving the cost-effectiveness of our regulation in 2007/08. On this basis, our assessment is that this outcome is <i>largely achieved</i>.</p> <p>Downside The original reasons for introducing regulation may change. Also the accumulated effect of regulation might be disproportionate. There is a risk, therefore, that aspects of the current regulatory regime for corporate reporting and governance for which the FRC is responsible impose disproportionate costs on regulated entities; for example, in relation to SMEs. If this risk materialised, we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside Our aim is to ensure that we remain committed to a regulatory approach that is proportionate and, where appropriate, principles-based; and that we can demonstrate that we are implementing this approach in practice. Our consultation on the cost-effectiveness of our regulation should enable us to identify opportunities for improvement. On this basis, our assessment is that this outcome will be <i>largely achieved</i>.</p>	<p>Implement agreed actions to improve the cost-effectiveness of FRC regulation whilst preserving confidence and corporate reporting and governance.</p> <p>Review and refresh the Strategic Framework.</p>
<p>ii) The FRC publishes an Annual Report which assesses progress towards the achievement of the outcomes included in the Strategic Framework and the FRC's own performance in implementing its Annual plan and meeting the principles of good regulation.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present The FRC publishes an Annual Report which includes the results of an annual survey of stakeholders' confidence in the Strategic Outcomes defined in the Strategic Framework and their assessment of the FRC's performance. We are consulting on an approach to measure the achievement of our Strategic Framework. On this basis, we consider that this outcome is <i>largely achieved</i>.</p> <p>Downside In contrast with commercial organisations for which quantifiable measures of success, such as market value or market share, can be identified, measuring the achievement of the Strategic Framework and the performance and achievements of the FRC is less straight-forward and must be substantially qualitative. Most of the elements of the Strategic Framework depend principally on market participants and other agencies. There is a risk therefore that we are not able to measure sufficiently the achievement of the Framework and/or the effectiveness of our performance. If this risk materialised, we would have <i>significant concerns</i> in the achievement of this outcome.</p> <p>Upside We have attempted to address this issue by including in our Annual Report our own assessment of our performance and inviting comments from stakeholders as part of our Plan & Budget process. The result of our consultation on measuring the Strategic Framework will help us further develop the measurement approach. On this basis, our assessment is that this outcome will be <i>largely achieved</i>.</p>	<p>Implement an approach to measure the achievement of the Strategic Framework.</p> <p><i>FRC will continue core management activities.</i></p>

<p>iii) Stakeholders are provided with regular reports and other information, such as assessments of the impact of activities designed to achieve the Strategic Outcomes in this framework.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present Stakeholders are provided with a range of information and we hold an Annual Open Meeting. On this basis, our assessment is that this outcome is <i>largely achieved</i>.</p> <p>Downside We do not believe there are any significant risks which would prevent us providing shareholders with regular reports and information. We therefore consider that this outcome will continue to be <i>largely achieved</i>. However we consider that it would be useful for stakeholders to obtain more comprehensive information about FRC consultations.</p> <p>Upside Based on our continued commitment to providing effective communication, our assessment is that this outcome will be <i>largely achieved</i>.</p>	<p>Develop and maintain, on the FRC website, a summary of the number and timing of FRC consultations.</p> <p><i>FRC will continue (and enhance, as appropriate) core management activities.</i></p>
<p>iv) An annual Plan & Budget is published which reflects timely and thorough consultation with stakeholders.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present This component is <i>largely achieved</i> through the publication of the Draft Plan & Budget for consultation, finalisation of the Plan in the light of feedback received, and the publication of a statement summarising the feedback.</p> <p>Downside We do not believe there are any significant risks which would prevent us consulting in a timely and thorough manner and therefore believe that this outcome will continue to be <i>largely achieved</i>.</p> <p>Upside Based on our commitment to timely and thorough consultation, our assessment is that this outcome will continue to be <i>largely achieved</i>.</p>	<p><i>FRC will continue core management activities.</i></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 & Risks Summary	Activities/Projects
<p>i) The FRC has a statutory framework in place to provide the 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 outcome 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; however, we do not believe that this is a significant risk. On this basis we believe that this outcome will continue to be <i>largely achieved</i>.</p> <p>Upside Our assessment is that this outcome 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><i>FRC will continue core management activities.</i></p>
<p>ii) The FRC demonstrates 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 independence from both the government and the regulated communities. On this basis, our assessment is that this outcome is presently <i>largely achieved</i>.</p> <p>Downside There is a risk that we fail to demonstrate that we are independent and credible in the way we work with other authorities. We do not, however, believe that this is a significant risk and consider that this outcome will continue to be <i>largely achieved</i>.</p> <p>Upside We have recently implemented a new governance structure. On this basis, our assessment is that this outcome will continue to be <i>largely achieved</i>.</p>	<p>Continue and finalise implementation of changes to FRC governance.</p>
<p>iii) Effective working relationships with UK Government (including BERR, HMT and DWP), and other UK regulators (including FSA and the Pensions Regulator) are maintained.</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 outcome is <i>largely achieved</i>.</p> <p>Downside In the medium term, inadequate consultation or communication with, or by, Government or other regulators could undermine the credibility of the FRC. We do not, however, believe that this is a significant risk and consider that this outcome 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 outcome 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><i>Primary responsibility: FRC</i></p>	<p>Present The FRC plays an influential role in the development of international accounting and auditing standards through its contacts with the IASB, the IAASB and various relevant EU and international bodies. We also continue to play a key role in IFIAR. On this basis, our assessment is that this outcome is <i>largely achieved</i>.</p> <p>Downside There is a risk that the approach to audit regulation might become fragmented across different national jurisdictions and fail to adequately address the auditing issues which arise from the international nature of the capital markets. If this risk materialised, we would have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside Based on our engagement with EU and global organisations, our assessment is that this outcome will continue to be <i>largely achieved</i>.</p>	<p>Contribute to the work of IFIAR.</p> <p>Publish a statement summarising our international activity.</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>FRC will continue to effectively work with the EU and international regulatory organisations.</p> <p><i>No significant projects planned in this year.</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><i>Primary responsibility: FRC</i></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 outcome is <i>largely achieved</i>.</p> <p>Downside There is a risk that the FRC could fail to reflect adequately the interests of public audit entities in its standards and guidance. However we do not believe that this is a significant risk and consider that this outcome will continue to be <i>largely achieved</i>.</p> <p>Upside Based on our commitment to review the relevance of our work to the public sector, our assessment is that this outcome will continue to be <i>largely achieved</i>.</p>	<p><i>No significant projects planned in this year.</i></p>

Supporting Outcome Six (c)
The FRC has adequate resources and management processes and operates efficiently.
(Primary responsibility: FRC)

Component	Assessment & Risks Summary	Activities/Projects
<p>i) The FRC attracts, retains and motivates the people required to meet its objectives.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present We have developed and implemented a People Strategy aimed at attracting, retaining and motivating our staff. On this basis, our assessment is that this outcome 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 in a competitive market place. If this risk materialised, we would have <i>significant concerns</i> about the achievement of this outcome.</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>FRC will continue core management activities. No significant projects planned.</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 outcome is <i>largely achieved</i>.</p> <p>Downside The application of the Freedom of Information Act to POB introduces some challenges to ensure that information is appropriately categorised and maintained. Failure to do this in accordance to the statutory requirements would cause us to have <i>significant concerns</i> about the achievement of this outcome.</p> <p>Upside Our assessment is that this outcome will continue to be <i>largely achieved</i> by developing and enhancing information systems which meet business needs and which are effective.</p>	<p>Maintain the Freedom of Information Act publication scheme and the necessary procedures to respond to FOIA requests.</p> <p>FRC will continue core management activities.</p>
<p>iii) The FRC secures the necessary funding and manages its costs effectively.</p> <p><i>Primary responsibility: FRC</i></p>	<p>Present We intend to continue to operate on a non-statutory basis, but will keep our funding arrangements under review to ensure that they remain appropriate. Our costs are relatively modest in relation to the level of our activity. On this basis, our assessment is that this outcome is <i>largely achieved</i>.</p> <p>Downside In February 2008, the Government announced that the FRC's responsibilities for accounting, auditing and corporate governance should in future be funded largely by market participants. The Government asked the FRC to consult market participants on the options for the new funding arrangements. There is a risk that the proposed funding arrangements fail to command adequate support of market participants. In this eventuality we would have <i>significant concerns</i> about the achievement of this outcome.</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 outcome will continue to be <i>largely achieved</i>.</p>	<p>In response to the Government's request, complete the consultation regarding funding the FRC's core operating activities in relation to accounting, auditing and corporate governance.</p> <p>Implement a system to collect the business levy from UK AIM and PLUS Markets Group listed companies.</p> <p>FRC will continue core management activities.</p>

<p>iv) Activities and projects in the Plan & Budget are completed in a timely and effective way and the risks to the achievement of the Strategic Outcomes in this framework are actively managed.</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 outcome is <i>largely achieved</i>.</p> <p>Downside There is a risk that unplanned events will occur over time which take priority over planned activities. However, we do not believe this is a significant risk because the planning process has proven to be flexible and responsive to changing circumstances. On this basis, we believe that this outcome will continue to be <i>largely achieved</i>.</p> <p>Upside Based on our continuing commitment to effective project management, our assessment is that this outcome will continue to be <i>largely achieved</i>.</p>	<p><i>FRC will continue core management activities.</i></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 outcome 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. If this risk materialises we would have <i>significant concerns</i> over the achievement of this outcome.</p> <p>Upside Based on the successful enhancement of our business continuity arrangements, we believe that this outcome will be <i>largely achieved</i>.</p>	<p><i>FRC will continue core management activities.</i></p>

Annex B – Our approach to setting our priorities

The FRC's resources are very modest in relation to the number and complexity of the issues with which we are concerned, and to the scale of the activities which come within our remit. It is, therefore, essential for us to have a basis for prioritising our work; a basis which takes into account our commitment to follow a risk-based and proportionate approach.

We believe that we can most effectively achieve this if we give those with an interest in corporate reporting and governance the opportunity to comment on the judgements we have made in preparing our Plan. We believe that this will help us to:

- explain the rationale for our selection of the activities and projects we have included in the Plan
- highlight those aspects of confidence in corporate reporting and governance which we believe require particular attention
- explain the basis on which we are seeking to influence market participants and other authorities at UK, EU and global level
- obtain helpful feedback from those with an interest in corporate reporting and governance on the judgements we have made in preparing the Plan.

Our Strategic Framework

We have based our approach to prioritisation on our Strategic Framework, which consists of a hierarchy of four elements:

- the overall Aim which the FRC promotes – confidence in corporate reporting and governance
- the six Strategic Outcomes which contribute to our Aim
- the Supporting Outcomes which contribute to the six Strategic Outcomes
- the major Components which contribute to the achievement of the Supporting Outcomes.

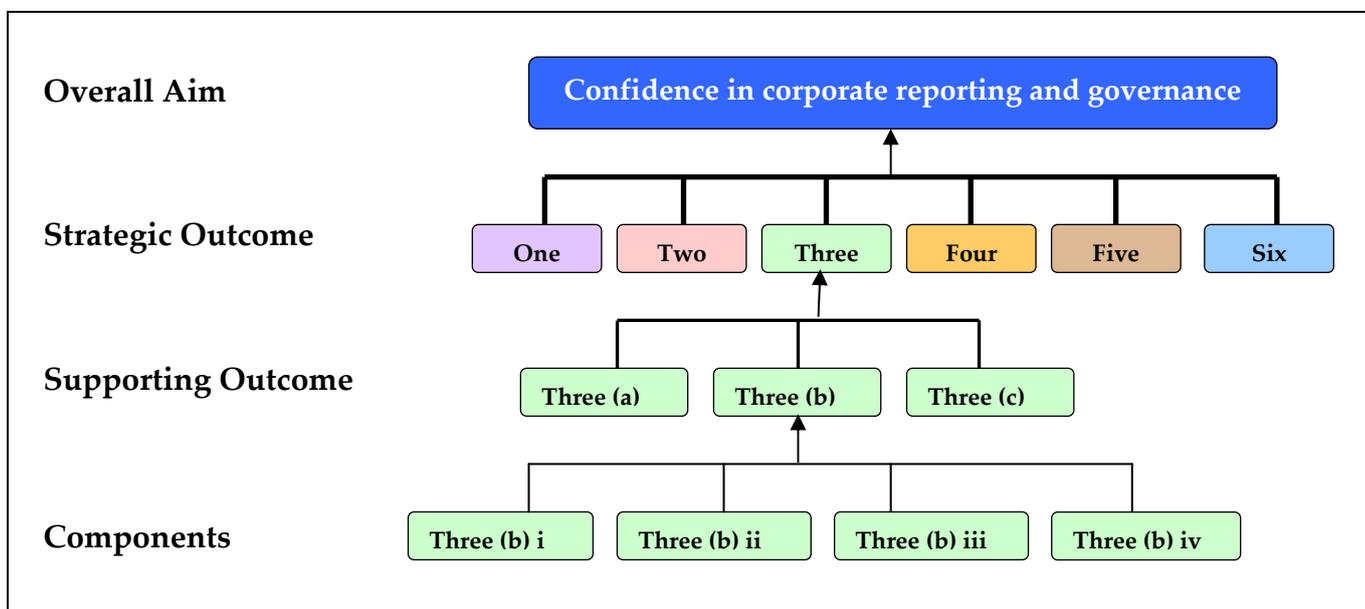
The Strategic Outcomes are, to a significant degree, mutually supporting in that achievement in relation to one of the outcomes can contribute to achievement in relation to one or more of the others. It is not essential that all of these elements are found in practice in every case. However, we believe that the greater the extent to which these elements are found, the greater will be the overall level of confidence in corporate reporting and governance.

Each Strategic Outcome (other than Outcome Six relating to our own effectiveness) has three Supporting Outcomes which have common themes:

- (a) The importance of a **proportionate and effective legislative and regulatory framework** that defines high standards in corporate governance and reporting - including standards and guidance on best practice set by Government, the FRC, other regulatory authorities and the professional bodies.
- (b) The **central implementation role of practitioners** i.e. those directly responsible for governance and the preparation of reports, audits, actuarial and other relevant professional advice in meeting the high standards defined. The term “practitioners” includes boards, auditors, members of the accountancy and actuarial professions and the firms to which they belong.
- (c) The importance of **effective monitoring** of the quality and integrity of reporting and governance by, for example, shareholders, audit committees, the regulatory authorities (including the FRC) and the professional bodies; and, where appropriate, arrangements for **enforcing** legislative and regulatory requirements.

Strategic Outcome Six relating to our effectiveness also has three Supporting Outcomes: we should meet the principles of good regulation and be accountable; actively shape UK, and influence EU and global, approaches to corporate reporting and governance; and have adequate resources to operate effectively.

Each Supporting Outcome in the Strategic Framework is sub-divided into Components which describe, at a more operational level of detail, those elements which we believe should be in place to underpin the achievement of the Supporting Outcome. The following diagram explains this hierarchy:



Note: This illustrates the hierarchy for Strategic Outcome Three. There is a similar hierarchy for all of the Strategic Outcomes.

It is in the nature of our aim and remit that, while some of the elements set out in the Strategic Framework are principally the responsibility of the FRC, most depend principally on market participants. We see the Framework as a way of facilitating co-operation among our wide range of stakeholders to promote well-founded confidence in corporate reporting and governance in the UK.

We are very clear that no system of regulation can ever eliminate the possibility of corporate reporting or governance failures. We believe that it is impossible to achieve zero failure and any attempt to do so would destroy wealth rather than facilitate its creation.

Assessing the achievement of the outcomes defined in the Strategic Framework

This section summarises our approach to making our assessments of the achievement of the outcomes defined in our Strategic Framework. The diagram on (page 51) summarises this approach.

Our approach involves us making assessments using our regulatory professional judgement rather than using a set formula to inform our assessments of the Component, Supporting Outcome, Strategic Outcome and overall Aim levels of the hierarchy. In some cases an assessment that a Component is not *largely achieved* may, in our judgement, seriously compromise the achievement of the relevant Supporting Outcome; in other cases, we may judge that it will not. Our assessments are applied to three scenarios in relation to each of the outcomes defined in the Strategic Framework:

Present: This is an assessment of the extent to which the outcome is achieved at present (April 2008 for the purposes of the Plan for 2008/09).

Downside: This is an assessment of the extent to which the outcome may not be achieved in two/three years, or sooner if we believe circumstances could change materially, because those responsible do not take effective action to promote the achievement of the outcome or do not adequately mitigate the risks that are likely to arise. It is not intended to represent a “worst case” scenario but rather a realistic assessment of the position should the plausible risks materialise.

Upside: This is an assessment of the extent to which the outcome is likely to be achieved in two/three years, or sooner if we believe circumstances could change materially, if those responsible take effective action to promote its achievement and adequately mitigate the risks that are most likely to arise. It is not intended to represent a “best case” scenario but rather an assessment of the realistic prospects – and takes into account our belief that no system of regulation can ever eliminate the possibility of failures.

The differences between the **Present**, **Downside** and **Upside** scenarios are primarily attributable to the level and effectiveness of action taken primarily by those responsible for the achievement of the outcome in the Strategic Framework (including, but not limited to, the FRC). The differences will also be attributable in part to the extent that the FRC can successfully influence those responsible for the achievement of the outcome in the Strategic Framework to take action.

We will keep our assessments under review in response to external developments and as further evidence becomes available.

For each scenario we apply our regulatory judgement to assess whether:

- each outcome is *largely achieved* or achieved to a considerable degree
- there are *significant concerns* in relation to the achievement of each outcome
- each outcome is *unlikely to be achieved* or unlikely to be achieved to a considerable degree.

The assessments reflect our judgements about the severity of the risk which might materialise and the likelihood that they might materialise.

We draw on a range of evidence in preparing our assessments, primarily:

- the evidence we have obtained from our monitoring and enforcement activities
- responses to consultations we have undertaken on specific issues
- surveys and research conducted independently by other organisations
- surveys commissioned by the FRC, including the annual Stakeholder Survey of confidence in corporate reporting and governance in the UK conducted on our behalf by Ipsos MORI and summarised in our Annual Report.

We publish detailed reports on our monitoring activities, together with other reports which have provided additional information which has informed our assessments. These reports are available on our website.

We believe that it is the responsibility of the FRC and others with responsibility for key aspects of corporate reporting and governance to take appropriate action to contribute to progress towards the **Upside** scenario and avoid the **Downside** scenario.

Successful completion by the FRC of its proposed work programme will not guarantee the full achievement of the outcomes in the Strategic Framework. We may conclude that the residual risks are such that even in the upside scenario there are *significant concerns* or that the outcome is *unlikely to be achieved*.

Our approach to making our assessments

Our approach has two dimensions: the **Scenarios** (Present, Downside and Upside) and the **Assessments**.

Scenarios

Present - To what extent is the outcome being achieved now?

Based on the evidence available to FRC.

Downside - To what extent is the outcome likely to be achieved if the plausible risks materialise?

Not a "worst case" scenario but a realistic assessment of what could go wrong in two/three years, or sooner if we believe circumstances could change materially.

Assumes those responsible do not take effective action to promote the achievement of the outcome or do not adequately mitigate the risks that are likely to arise.

Upside - To what extent is the outcome likely to be achieved?

Not a "best case" scenario but a realistic assessment of the prospects in two/three years, or sooner if we believe circumstance could change materially. Assumes those responsible for the outcome endeavour to take effective action to promote its achievement and adequately mitigate the risks that are most likely to arise.

Assessments

**Largely
achieved**

**Significant
concerns**

**Unlikely to
be achieved**

Annex C – Supporting material published on the FRC website

This Plan & Budget 2008/09 is supported by the following material which is available on the 'About the FRC' section of the FRC website:

Feedback summary for the Draft Plan & Budget 2008/09

Responses to the Draft Plan & Budget 2008/09

Our organisation

Regulatory Strategy (Version 3)

Membership and activities of our Operating Bodies

Funding arrangements

Our annual planning cycle

Annual Plans

Quarterly Strategic Progress & Planning Reports

Annual Reports

In addition, the FRC website provides details of all our publications, including:

Standards and related guidance

Press Notices

Consultation and discussion papers

Reports

Annex D – Abbreviations

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

Annex E – Contact details

Questions about the Plan & Budget 2008/09 should be sent to:

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