



1 March 2022

Sir Jon Thompson
CEO, Financial Reporting Council
Via: frc.plan.budget@frc.org.uk

Dear Sir Jon

CCAB RESPONSE TO THE FRC'S DRAFT 3 YEAR - PLAN 2023-25

1. CCAB takes the opportunity to comment on the above the FRC'S Draft 3 YEAR - Plan 2023-25 issued by the FRC in January.

About CCAB

2. The combined membership of the five CCAB bodies – ICAEW, ACCA, ICAS, CIPFA and Chartered Accountants Ireland – amounts to some 282,000 professional accountants in the UK and the Republic of Ireland (some 410,000 worldwide).

3. CCAB provides a forum for the bodies to work together collectively in the public interest on matters affecting the profession and the wider economy.

4. CCAB's credibility stems from its insight into all areas of finance and accounting, from finance director and audit partner to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members work through the financial value chain in all sectors as key decision makers and business leaders within the UK and around the world.

Context

5. We appreciate this opportunity to comment on the FRC's Draft 3 Year Plan for 2022-25. The transition from the FRC to ARGA will be a period of considerable change. With high expectations of the new regulator, the transparency of this exercise sets a good tone for how the regulator can work with the whole corporate reporting ecosystem to drive up quality.

6. We welcome the recent announcements of appointments to the FRC Board and of Sir Jan du Plessis as Chair. We believe these appointments put the FRC in a strong position to advance work on its transition to ARGA.

Consultative Committee of Accountancy Bodies

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7. We welcome the FRC's efforts in considering carefully how best to encourage high standards. Among other references to this collaborative approach, the Strategy recognises 'with our regulatory powers comes a responsibility not only to apply those powers fairly and proportionately but also to provide clear and effective guidance to all those we regulate and support them to improve and meet our expectations over time'. This is a clear and thoughtful statement of intent. It provides a strong frame of reference for the FRC's transformation to ARGA. We encourage the FRC to further develop this thinking.

We support the direction of travel and the purpose statement set out by the FRC. We would like greater clarity on the scope or intent that sits behind this purpose statement and how the proposed budget will enable the fit for purpose organisation desired.

Preparing for transition in 2022/23

8. Sir John Kingman envisaged a new regulator quite different in resource, power and approach to the FRC and it is good to see the Strategy consider the transformation in maturity and the mandate required. Getting to ARGA will require not only that the regulator builds a lot of new capabilities, but also that it succeeds in changing perceptions among consumers of corporate financial information. There are high expectations on ARGA, for whom BEIS has set the intangible objective of restoring trust in corporate reporting and audit, and it has not been articulated what success for ARGA would look like, or how it will be measured. We suggest that the first task for the new regulator will be in setting clear expectations for what it can reasonably achieve.

9. To inspire the respect Sir John Kingman envisages, ARGA will need to rapidly establish confidence that under its guidance reporting, audit and governance is of high quality and can be trusted. Four years after the Carillion failure there is little sense that the criticisms of the corporate reporting eco-system repeated in public debate have yet been comprehensively addressed. The FRC should clarify how it aims to build capabilities that meet expectations for ARGA and how it will approach the task of shifting public perceptions.

Funding – Proportionate, Evidence Based and Transparent

10. Whilst CCAB fully supports the efforts of the FRC in its determination to implement reform within the inevitable constraints that exist ahead of legislation, it is disappointing for all that the Government's response to the consultation on the future of audit regulation in the UK is still to be published after many months of anticipation. We are keen to see the proposals for the statutory funding of ARGA and hope to see a new funding model being developed as soon as possible so that the allocation of costs to the funders is fair and proportionate.

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11. We welcome the FRC's efforts to produce a medium-term plan of three years. However, the FRC's planning is based on certain assumptions for the future, whilst we wait for the Government to confirm its response. As such, we note that the next three years could look quite different if the Government's response requires a reconsideration of those assumptions. We appreciate that we now have a draft three-year plan, rather than a single year budget, but the proposed increases have again come without any notice and don't appear to have any room for negotiation.

12. There is now a consistent pattern of steep rises in the FRC's budget, and the extent to which these must be met by the professional bodies. While the proposed increased for 2022/23 (22.7% for the CCAB contribution) may be less than in previous years, this still represents a significant outlay for organisations which continue to deal with their own challenges in a difficult economy at the time of an unprecedented global emergency (previous proposed increases in the CCAB contribution were over 46% in 2022/23 and 61% in 2021/22). We consider such increases as disproportionate and unfair, and we are concerned at the lack of accountability. As stated in last year's response, we still consider that the FRC has not adequately articulated the justification for them.

13. There are questions over the fairness of the approach to spending, and the extent to which it falls upon the CCAB. It is regrettable that consultation on a new funding model has been delayed. However, we welcome the FRC's commitment to address this soon, with an aim for a fairer, proportionate and more transparent model, which looks for contributions from groups who are not currently liable. We would strongly encourage the FRC to push this review forward at the earliest opportunity.

14. As noted in our response to the 2021/22 budget we would argue that reserves accumulated by the FRC before it became a public body should be made available to meet increased costs. All funders, but especially the accountancy profession, contributed to these reserves and we continue to propose that they are used to off-set some of the increase in the FRC's proposed budget, particularly while it is in a transitional phase. We would like assurance that accumulated reserves will be used to fund the activities of the FRC.

15. We also believe there are legitimate questions to be asked over the proportionality of the spending. Using professional oversight spending as an example, we are not aware of oversight activity to date having uncovered concerns amongst the RSBs which would necessitate an additional £1.4 million of spending across 2022/23 (notwithstanding the scale of such activity). It also raises the question whether the current level of oversight activity is justified based on the evidence and the risk characteristics of RSBs. While the consultation document sets out some additional activities, it is not clear that these will require the level of spending which is proposed or indeed what systemic risks they are seeking to address.

16. We note the inclusion of local audit functions in the plan but there is no transparency about the level of resource being applied to it or how it is being funded. We note that DLUHC is making a contribution, but there is no clarity as to whether this is for local audit and whether this funding is sufficient to cover all costs.

Implementing the Regulators' Code

17. Whilst we have previously questioned whether the pace and the scale of the funding over the last three years does accord with the principles set out in the Regulator's Code; namely, proportionality, evidence based and transparent, we warmly welcome the indication that the FRC will apply the Regulators' Code and will be providing regular reporting on how it has applied its principles. The Regulators' Code is a balanced and thoughtful document that can provide a strong underpinning to ARGA. The 'four faces' appear to be a good interpretation of the Code's principles and have strong potential as a model to guide ARGA's approach. We would welcome further information about how the FRC is applying the Code and how it intends to report on performance against it.

18. Please be rest assured that the CCAB bodies remain fully committed to co-operating with the FRC in its efforts to implement the significant reforms necessary for the establishment of the new independent regulator, ARGA.



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Managing Director

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