

2 September 2008

Policy and Planning Manager
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Dear Sir

Proposals for future arrangements for funding the FRC's activities

I set out below our comments on the consultation paper setting out the FRC's proposals for the future arrangements for funding its activities in relation to accounting, auditing and corporate governance, issued in July 2008.

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone. Our audit practice is the sixth largest in the United Kingdom.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering £180 billion spent by 11,000 local public bodies.

As force for improvement we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

In general, we believe it is unarguable that the public sector, which uses and benefits from – but also contributes to the development of – accounting and auditing standards and the FRC's pronouncements on corporate governance should contribute a fair share to the cost of the FRC's activities. However, this will bring with it an obligation to involve the public sector more directly than is currently the case in the work of the FRC and its operating bodies.

Consultation questions 1 and 2

We agree that the FRC's costs should be met by the major groups and market participants which are subject to, or have regard to our regulatory requirements, and have the primary responsibility for implementing the standards the FRC sets or influences, monitors and enforces. We also agree that the funding groups which prepare financial statements should contribute towards the UK share of the IASB's costs.

Consultation questions 3 and 4

We agree that you have appropriately identified the two major groups which (following the decision to withdraw the government contribution to the FRC's funding) are subject to, or have regard to, the FRC's regulatory requirements but which do not contribute to its costs, subject to the inclusion of pension funds in the list of bodies under the local government heading.

However, we do not agree that major UK charities, housing associations and the higher and further education sector should be exempted from contributing to the FRC's funding. We do not believe the FRC has made a case that it would be any less appropriate or cost effective to seek contributions from them as opposed to those bodies which it proposes should contribute to its costs in future.

Consultation questions 5 and 6

In overall terms, the proposed basis for assessing the appropriate contribution from the potential new funding groups that the FRC has identified to the cost of its core operating activities in relation to accounting, and auditing corporate governance appears to be broadly right. However, the list in Table 3 omits NHS Trusts (which are different from Foundation Trusts).

It is not clear how the FRC envisages collecting the projected contribution. The paper indicates that 'agreeing the final basis of allocation will be a matter for the Government'. If it is envisaged that the government will pay collectively on behalf of public sector organisations, for example by top slicing an amount from funds that would otherwise have been distributed to individual bodies, it is difficult to see how the contribution is conceptually different from a government grant. We presume that the FRC does not envisage levying what, in practice would be relatively small amounts from individual public bodies? If the FRC does envisage having a direct relationship with individual bodies, it will impose a significant burden in terms of an obligation to consult and practical problems in relation to billing and collection.

We hope these comments are helpful. If you would like to follow any of them up please do not hesitate to contact me.

Yours faithfully

Martin Evans
Managing Director, Audit