



# The Consultative Committee of Accountancy Bodies

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The Association of Chartered Certified Accountants  
The Chartered Institute of Management Accountants  
The Chartered Institute of Public Finance and Accountancy

Dear Stephen

## **PROPOSALS FOR FUTURE ARRANGEMENTS FOR FUNDING THE FRC'S ACTIVITIES IN RELATION TO ACCOUNTING, AUDITING AND CORPORATE GOVERNANCE**

Please find set out below our comments in response to the above consultation document published on 1 July 2008.

### **1. Proposed Funding Basis**

The CCAB bodies would welcome and support a stable and equitable funding model which encompasses all UK institutions and organisations which benefit from the FRC's valuable work. We note the proposal to extend the funding basis to large private companies and, given the proposed withdrawal of Government funding, the public sector. However, it is our view that the FRC does not appear to have explored a sufficiently wide range of options in its consultation paper, with the result that the accountancy profession faces a disproportionate increase in its contribution from one third to a proposed 42% of FRC costs.

The FRC describes itself as '... the UK's independent regulator responsible for promoting confidence in corporate reporting and governance.' As such, we would have expected the FRC to have given consideration to a wider basis for a new funding model and would suggest that this could be achieved by reference to those for whom the FRC's activities are relevant to a significant extent or who have a major interest in its activities as defined in relation to the Secretary of State's levy powers in Section 17 of the Companies (Audit, Investigations and Community Enterprise) Act.

We recognise that there are difficulties associated with collection and that funding mechanisms should remain efficient but we do not believe that administrative ease of collection should be a primary driver in determining the funding model for the FRC. On this basis we believe that the FRC should reconsider bringing other parts of the economy e.g. large charities, universities and housing associations, which would not unsettle the balance of income sources and efficient collection, within the funding basis.

With respect to the public sector, we note that the consultation paper states that:

*‘. . . not all our regulatory activities apply to this group [the public sector] and also that the public sector is not directly subject to FRC regulation but in setting its own accounting and audit standards, it has regard to the accounting and auditing standards which we set or influence.’*

We believe that there is a strong case for the public sector to continue to make a contribution to FRC funding insofar as its role addresses international accounting and auditing standards. All public sector organisations are currently scheduled to be reporting on an IFRS basis by 2010/11.

Also, we do not understand the reasoning behind the large discounts which it is proposed to apply to large private companies and public sector organisations. More detailed explanations as to why discounts are to be applied and how they have been calculated would be welcome.

## **2. Accountability**

The CCAB bodies are major contributors to the FRC's core costs. As you will be aware, the bodies have stewardship responsibilities in relation to the holding and disbursement of funds, which are raised by subscription from their members. We therefore need to be assured that, for the future, there will continue to be a process which allows the CCAB bodies to be satisfied that their contributions to FRC costs are equitable, properly applied, valid and proportionate. It is our belief that the current Government contribution helps to provide the necessary accountability; without it there will be less effective checks on possible future spending increases either through the FRC's expansion of its own remit, e.g. IFIAR or by the FRC being required to undertake specific projects at the behest of Government.

At this most practical level we therefore suggest that new arrangements must be developed. For example, for the 'steady state' parts of the FRC's operations, now that a baseline has been established in the four years since the FRC assumed oversight responsibility for the profession, it might be appropriate to operate an annual index linked upgrading of budgets. Costs for work over and above should be funded on the basis of 'user pays', be that the Government, the corporate sector or the profession.

A strengthening of the role of the FRC/CCAB Accountancy Bodies Liaison Forum by bringing it within the formal governance of the FRC would also help to allay the profession's concerns in this regard. Alternatively some form of independent oversight of the FRC as a means of ensuring accountability for scope and costs could be considered. However, the CCAB bodies would be resistant to any proposals that would overcomplicate the structure, and therefore increase the costs, of the FRC.

## **3. Reserves**

We would support the FRC in adopting a proper reserves policy which should be enduring and capable of remaining applicable. However, we would welcome more information to enable us to form views about whether the target level of reserves of £2m is appropriate and about the proposed period over which this level of reserves should be accumulated. Reserves targets should be set by reference to the scale of operations, the risk attaching to income and the risk of major unforeseen costs. We would recommend that the FRC examines examples of best practice in the charity/not for profit sector; the Charities SORP could provide a model. However, with regard to major unforeseen costs, we note that AADB is currently consulting on the removal of the power for its tribunals to award costs against AADB other than in instances of malfeasance. If this is implemented, then there would appear to be a strong case for FRC significantly reducing the currently proposed target level of reserves.

#### 4. Other Issues

We continue to believe that the tripartite funding arrangement (of government, profession and corporate entities), agreed when the FRC was created in its current form, provides good mechanisms for ensuring the integrity and impartiality of the regulatory oversight regime and for maintaining a high level of public confidence.

We wish to express reservations about the way in which the withdrawal of the Government's contribution has been approached, at what appears to be a rather hasty consultation (contrary to the Better Regulation Commission's Principles of Good Regulation) and at the lack of clarity associated with any Government contribution for 2009/10 in view of the three year settlement we understand the BERR received from HM Treasury. The process, in our view, cannot be regarded as the optimal way to arrange the funding of the FRC given the considerable uncertainties that have prevailed for some two years now.

As a final point of detail, the consultation paper assumes a 35% contribution from CCAB in 2008/9. Under the tripartite arrangements the profession's contribution is one third. The bodies have not agreed the 35% contribution and consider that such an assumption effectively imposes such an increase.

We look forward to receiving your further proposals following the current round of consultation.

Yours sincerely

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