



FINANCIAL REPORTING COUNCIL

The UK's Independent Accounting, Auditing & Actuarial Standards Regulator

PREPARERS LEVY 2009/10

PUBLIC SECTOR ORGANISATIONS

FACT SHEET

The FRC is the UK's independent accounting, auditing and actuarial regulator responsible for promoting confidence in corporate reporting and governance. Details of the FRC's work are available on our website at www.frc.org.uk.

This fact sheet provides an overview of the background and basis for the Preparers Levy, the functions of the FRC and the benefits derived from the FRC by public sector organisations.

Background to the Preparers Levy

- The FRC collects an annual levy from preparers of accounts, being the Preparers Levy, as part of its funding which is made up of contributions from different sources who benefit from the FRC's functions;
- At the Government's request the FRC carried out a public consultation on its funding arrangements in July 2008, following which it announced the decision to bring public sector organisations within the scope of what was the Business Levy for 2009/10 and future years. The levy is now known as the Preparers Levy;
- Public sector organisations are given a substantial discount of 75% on the minimum levy, compared to the amount applied to publicly listed companies.

Basis for the Preparers Levy

- UK public sector organisations use the accounting and auditing standards set by the FRC;
- The FRC has a number of regulatory duties set by statute and helps promote confidence and transparency in public organisations' financial reporting;
- Section 17 of the Companies (Audit, Investigations and Community Enterprise) Act 2004, as amended by Part 44 of the Companies Act 2006, confers a power on the Secretary of State to make regulations enabling the FRC to recover its costs through a levy. Thus far, this power has not been exercised.
- The FRC's responsibilities are funded through non-statutory arrangements on the basis of an understanding with the groups subject to the levy. However, should a voluntary approach prove unsustainable, the FRC will formally request that the statutory power be invoked.

The FRC's Functions and Operating Bodies

The FRC's standard-setting, monitoring and enforcement functions are principally carried out through six Operating Bodies.

Four of the six Operating Bodies carry out responsibilities in relation to accounting, auditing and the accountancy profession which are relevant and affect public sector organisations:

1. **The Accounting Standards Board (ASB)** issues accounting standards for the UK.

The *Government Resource and Accounts Act 2000* require government departments to prepare their resource accounts in accordance with:

- directions issued by HM Treasury;
- the Generally Accepted Accounting Practice (GAAP);¹ and
- the Code of Practice on Local Authority Accounting (the Code).

The regime is changing. In order to follow private sector best practice, the annual financial statements of government departments will be prepared using IFRS adapted as necessary (2007 Budget). The 2008 Budget deferred movement to IFRS until 2009/10.

The ASB has a Committee on Accounting for Public-benefit Entities which has senior representation from the public sector. That representation is important to the public sector as it enables it to have an input on the work of the ASB, in so far as that work applies.

Local authorities' accounts include a Statement by the ASB on whether the Code contains any fundamental points of principle that are unacceptable in the context of GAAP. Public corporations generally apply UK GAAP in accordance with directions issued by the Treasury, and are moving to IFRS with the rest of the public sector. Indeed, the local government sector has announced it will move to preparing IFRS-based accounts from 2010/11.

The ASB's significant role in relation to IFRS will continue to be highly relevant to public sector organisations. In particular, the ASB will:

- Continue to promote the development of appropriate, proportionate and principles-based IFRS;
- Influence the appropriate adoption of IFRS by the EU through its participation in the European Financial Reporting Advisory Group (EFRAG);
- Manage the process of convergence between UK GAAP and IFRS.

2. **The Auditing Practices Board (APB)** issues standards and guidance for auditing and auditors' integrity, objectivity and independence.

The heads of the national audit agencies in the UK chose to adopt the APB's engagement standards and quality control standards as the basis for their approach to auditing the public sector financial statements.

The APB has a Public Sector Sub-Committee which has senior representation from the public sector.

The Public Audit Forum advises on the application of standards and the practices of auditors delivering public services, having specific regard to the statements issued by the APB.

The forum comprises of the:

- National Audit Office (NAO);
- Northern Ireland Audit Office (NIAO);
- Audit Commission for Local Authorities;

¹ Whilst there is no statutory definition of GAAP, HM Treasury has taken it to be pronouncements by the ASB, accounting and disclosure requirements of the Companies Acts and the body of accounting knowledge built up over time.

- National Health Service in England (Audit Commission); and
 - Wales Audit Office and Audit Scotland.
3. **The Professional Oversight Board (POB)** provides statutory oversight of the regulation of the auditing profession.
4. **The Accountancy and Actuarial Discipline Board (AADB)** is the independent investigative and disciplinary body for accountants and actuaries. It is responsible for operating and administering independent disciplinary schemes for public interest cases involving members of the accountancy profession including public interest cases concerning the public sector.

The Benefits Provided by the FRC to Public Sector Organisations

- Accounting and auditing standards that can be applied effectively or adapted for the public sector context;
- Providing standards and guidance that are tailored to the requirements of public sector organisations;
- Leading the UK's interest in international accounting and auditing standards which are, or are planned to be, used by public sector organisations in the UK and their auditors;
- Promoting the professionalism of accountants working in public sector organisations, and operating independent disciplinary arrangements for public interest matters, including matters which might arise in public sector organisations.

The FRC's role in defining good practice in corporate governance through the Combined Code applies to UK companies with a primary listing in the UK. A number of public sector organisations adopt the Code as a part of their commitment to good governance and business commerce.

Calculation of the Preparers Levy

The 2009/10 levy for individual public sector organisations will comprise a minimum levy of £245 and further amounts payable by organisations above a certain size, with the rate per £m of expenditure (or turnover where data on turnover is available) declining in five levy size bands.

The National Audit Agencies provide the FRC with the most recent audited expenditure figures for organisations that fall within the FRC's remit and for which they have the relevant data. These figures are used to calculate the levy.

Contact Us

If you have a question about the **method of payment** please contact the Levy Collection Team in Mouchel Business Services, who are administering collection of the levy on frc@mouchel-lincoln.com (telephone 01522 836860).

If you have a query about the **calculation** of the levy for your company, please e-mail the FRC Finance Officer, Tulsee Rughoobur on t.rughoobur@frc.org.uk (telephone 020 7492 2338).

If you have **any other query** in relation to the levy, please e-mail the FRC Policy and Planning Manager, David Andrews, on planning@frc.org.uk (telephone: 020 7492 2382).