



The Consultative Committee of Accountancy Bodies

PO Box 433
Chartered Accountants' Hall
Moorgate Place, London EC2P 2BJ
Telephone: 020 7920 8100
Facsimile: 020 7628 1874
Email: admin@ccab.org.uk
Website: <http://www.ccab.org.uk>

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David Andrews
Policy and Planning Manager
Financial Reporting Council
71-91 Aldwych
London
WC2B 4HN

The Institute of Chartered Accountants in England and Wales
The Institute of Chartered Accountants of Scotland
The Institute of Chartered Accountants in Ireland
The Association of Chartered Certified Accountants
The Chartered Institute of Management Accountants
The Chartered Institute of Public Finance and Accountancy

Dear David

DRAFT PLAN AND LEVY PROPOSALS 2010/11

The CCAB bodies welcome the opportunity to comment on the FRC's Draft Plan and Levy Proposals 2010/11. We continue to be committed to working with the FRC in order to achieve proportionate, effective and efficient regulation and oversight.

We are generally supportive of the Draft Plan and in particular commend the efforts that have been made to simplify its structure, regarding last year's Framework as rather complex. We do feel that, in some respects, there is now a certain lack of clarity in the document as presented but hope that our comments will assist in its further development.

Our responses to the questions set out in the consultation paper are set out below:

1. Do you have any comments on the proposed major activities and projects? Are there any additional activities or projects which should be included?

(a) Helping to address the challenges of current conditions

We support the FRC's proposal that it should do more work here. We encourage the FRC to consider the case for concentrating more on the work of preparers of accounts as we believe that this work is not sufficiently understood as being key to success for a Board across a whole range of areas, including managing its risks; whereas perhaps too much effort goes into understanding the audit and related processes. We believe the FRC should do more to ensure Boards fully understand their business models, particularly the risks involved in them given recent economic turbulence, and that the focus of the FRC's programme should be supporting the long-term sustainability of business. We believe that the FRC should seek to encourage Boards to provide transparency for investors, which would go a long way to removing misapprehensions which we now see as a result of the recent economic turbulence. We also believe that if Boards had a better understanding of their business models that would help them in weighing considerations that arise in managing the business over the long term, particularly as shareholders in some cases can have shorter term expectations.

The Draft Plan includes a stated intention to lead the debate to stimulate improvements to narrative reporting and reduce reporting complexities. We welcome this. We note that the FRC does not plan to undertake work of an exploratory nature, such as revisiting the accounting model in a range of areas such as valuations, relevance and integrated reporting (A4S) and climate change reporting (CDSB).

Some activities mentioned are simply ‘business as usual’. For clarity, these could be noted under a separate heading, and not included under headings deemed to be in response to the financial crisis. The reader should be able to see *how* proposed activities that are either deemed to ‘address the challenges of current conditions’ or react to the ‘longer term lesson of the financial crisis’ will do so. For example, it appears that the monitoring and reporting work of the AIU will continue along the same lines as for previous periods. In this connection, we recommend that the size criteria by which entities in particular sectors, such as pension schemes, are classified as “public interest” are kept under review to ensure that the majority of audits picked up for review do involve the “high subjectivity” and “professional judgement” referred to in the Draft Plan.

With regard to the future role of the ASB, the document appears to assume ‘business as usual’. It is noticeable that among the major activities listed for the ASB there is no actual standard-setting as such, but pages 4 and 5 refer to influencing and leading debates. What is given less prominence in the document is the possible future impact of the IFRS for SMEs on the future of UK GAAP.

In the light of the likely reduction in standard-setting, there may be a call for a broad debate about the future role of the ASB as a standard-setter that is principally engaged in influencing the IASB, possibly duplicating activities of the professional bodies and others, including trade bodies such as the CBI and ABI. However, we also recognise that there are areas where the FRC should not reduce its commitment to the ASB, in particular the work in ensuring that appropriate standards of guidance on accounting by specialist businesses (including the voluntary sector) and non-listed companies are in place. Here, we do not believe that we are yet at the stage at which the ASB can limit itself to providing input to the work of the IASB and suggest that this should be more explicitly stated.

We note that it is the intention that POB will continue to monitor activities that could adversely affect public confidence in accountants (and actuaries) and take action where appropriate. We would welcome more detail as to what these activities will be as we may well be in a position to address concerns.

More generally, the particular strains that the SMP sector is under in terms of regulatory demands in the context of the present economic climate should not be underestimated. These strains arise out of the new auditing standards, ethical standards and the international proposals for new accounting standards and should be acknowledged by guarding against regulatory change where there is no proven need.

On a more specific issue, the FRC did commit some time ago to the production of guidance for directors and auditors on the meaning of “adequate accounting records” for the purposes of the requirements of the Companies Act 2006. The absence of this guidance is becoming increasingly critical, given the moves of the Serious Fraud Office to base action against companies on the criminal offence associated with non-compliance, which may well be increasingly followed by other law enforcement agencies.

In all this we know that the FRC will be mindful of its position as a market-led regulator, working within its legislative remit in a risk based manner in accordance with the Better Regulation Commission’s five principles of proportionality, accountability, consistency, transparency and targeting in the context of the need for its work to be increasingly evidence-based.

(b) Identifying and responding to the longer term lessons of the financial crisis

In addition to points made above, we also think that the FRC is right to place emphasis on the needs of institutional investors, particularly for those participating in investment programmes where an understanding of the effectiveness of their own strategies in relation to investments might do much to address market volatility. A balancing of standards to a more principles based approach might

provide for better reporting and understanding of businesses models so that people are better informed of where the short comings are and what can be done to address them.

Also, it may be helpful for the FRC to undertake some work on producing examples of best practice and case histories in support of the review of the effectiveness of the UK Corporate Governance Code.

(c) Influencing and responding to international initiatives

We are generally supportive of the FRC's ambitions in this area and believe that both the promotion of international audit quality and the promotion of the quality of the work of preparers of accounts should be given equal emphasis. Without one the other will fall.

(d) Enhancing FRC's effectiveness and efficiency

We note the recognition that the FRC's stakeholders are under pressure to keep their costs under tight control and welcome the FRC's ambition, in turn, to keep its costs under control. We take this as an intention to consider the proportionality of costs on the FRC's funders as well as the issue of managing the costs themselves.

However, we remain concerned about the overall increase of 3% in the budget and suggest that this should be reconsidered. We also suggest that presenting an analysis based on a flexed budget, for example, if income was 5 or 10% less, would be helpful in showing that the FRC is aware of others' financial concerns and their need to prioritise.

We have made known previously our view that closer working with the professional bodies, particularly in terms of the additional expertise and resource that we might be able to offer, could be to the mutual benefit of both the FRC and the profession. Transparency is the key here in terms of any prospect of the FRC and the profession being perceived as too "close".

We believe that the FRC should continue to investigate broadening its funding model so that any organisations that make little or no contribution but benefit from the FRC's activities are brought into the funding net.

In our view, responsibility for a stewardship code of institutional investors rightly rests with the FRC but we note that this request from the Government for the FRC to undertake additional work arises at the same time that the Government is withdrawing funding from the FRC. There appears to be an expectation that the FRC will absorb such requests when the likely reality is that the costs will be passed on to funders. We hope that this point has been or will be raised appropriately.

We note that 'the FRC will implement an enhanced communication strategy to demonstrate to funding groups that the FRC manages its costs carefully and provides good value for money.' We suggest that it would be helpful if this could be more specific: what does the FRC consider represents good value for money? How is this measured? Do funding groups and other interested parties agree with this analysis?

(e) Other Comments

The FRC has been very helpful in issuing guidance on the application of the CA2006 auditor liability provisions. Nevertheless, the result has in practice been little progress in this area, not least because the US SEC has continued to assert that the negotiable nature of the CA provisions impairs auditor independence. This clearly impacts on companies with dual listings, which were originally expected

to take the lead. We believe there is a role for the FRC in discussing with BIS and others how the underlying intention, fair and reasonable liability limitation, might be taken forward in the UK.

CCAB wishes to express its willingness to work with the AADB on any matters of discipline that arise affecting members of the profession. We note that the Revised Scheme is about to come into effect and that the proposed protocol relating to preliminary enquiries is currently the subject of discussion between the bodies and the AADB.

We also note the FRC's priorities in relation to the AADB: '... the FRC will ensure that appropriate arrangements are in place for managing the financial risks with the current disciplinary scheme' and 'to make significant progress on ... the matters with which it is currently dealing to identify and investigate other matters which meet the criteria for AADB investigation'. However, we suggest that the FRC considers reviewing its cost control methodologies to reduce costs where possible. The AADB places a significant financial burden on the participant bodies and places a question mark over the future sustainability of the Scheme. In addition, the funding structure would also benefit from review. The FRC could conduct a review of the public interest test and consult thereon, and also undertake a review to consider whether there are less adversarial methods to resolve cases, for example through the use of a consent order regime.

2. Do you have any comments on our draft budget and our funding projects for 2010/11?

It is in this part of the Draft Plan in particular that we feel some more detailed information would improve the clarity of the Proposals and the projections therein.

Table 1, page 6, shows an increase of 3% in the 2010/11 budget over 2009/10 but comparison to forecast shows an increase of 5.4%. Total costs rise from £19.5m to £21.3m - an increase of over 9%. We feel that a more detailed explanation of the increase in core costs should be given in the Plan and, moreover, we suggest that costs should not be increasing at this rate.

Table 2, page 7, shows the decrease in Government funding but it is difficult to identify the efficiency savings and new income referred to in the last paragraph of page 3 of the Plan.

It is not clear how staff costs will change; either through reductions/additions in numbers and/or pay increases at a time when the FRC's stakeholders are showing considerable restraint.

It would be helpful to have a breakdown of the costs of 'accounting, auditing and corporate governance' including the allocations between the FRC and its operating boards.

In conclusion, we feel it would be in the FRC's own interests to demonstrate that it is simply not passing on cost increases to its funders without taking mitigating steps.

3. Do you have any comments on our levies 2010/11?

The proposed minimum preparers' levy, in respect of an entity of size less than £100m, is £1,030 (increased from £980 in respect of 1009/10). This is an increase of 5.1%. It is proposed to reduce the incremental increases in respect of larger entities, so that a £25 billion entity, for example, would pay a levy of £28,249.50, compared with £29,952 in respect of 2009/10 (a decrease of 5.7%). We suggest that this be highlighted or explained in the proposals.

We look forward to seeing the outcome of the consultation and hope that you will find our comments helpful.

Yours sincerely

Michael D M Izza
Secretary
Tel No: 020 7920 8419
E-mail: michael.izza@icaew.com