

Appointment of the POB as Independent Supervisor to the Auditors General

I. The POB staff resources that will be used in carrying out the appointment of the POB as Independent Supervisor to the Auditors General (expressed in man/years)

The Oversight Board takes ultimate responsibility for ensuring that the FRC makes adequate resources available to the Oversight Board for the discharge of its responsibilities. Through the Director, the Oversight Board will prioritise its resources across its following activities:

- The independent oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies;
- The independent supervision of the Auditors General (AG);
- The monitoring of the quality of the auditing function in relation to economically significant entities; and
- The independent oversight of the regulation of the accountancy and actuarial professions by the professional accountancy and actuarial bodies.

Excluding AIU staff dedicated to the monitoring of audit quality the Oversight Board has a budget of 10 staff for the year ending 31 March 2009. The staff budget includes the recruitment of one additional member of professional staff, eight existing professional staff and one support staff.

For budgetary purposes, excluding any inspection or investigation activities, the time allocated to the delegated independent supervision function is as follows:

	%
Director, Paul George	5
Manager, Shazia Ahmad	15
Support, Christina Trickett	5

Overall, excluding any time involved in undertaking the arrangements directly, we are budgeting one quarter man years per annum to the role of Independent Supervisor. The Oversight Board is satisfied that this will be sufficient for anticipated work. However, additional resources will be made available in the following order:

- Reallocate resources from other Oversight Board activities including the AIU in extreme circumstances;

- Request support from other parts of the FRC;
- Request funding from the FRC for additional permanent or temporary staff; and
- Draw upon additional support from the Board normally through participation in sub-committees.

II. The expertise/experience of staff carrying out the role of Independent Supervisor

Attached as Appendix 1.1 are CVs of the Members of the Oversight Board. The composition of the Board has been carefully managed to ensure appropriate experience while maintaining a lay majority. The resulting board combines first hand experience of auditing, actuarial work, business, academia and public service.

The experience of key staff allocated to the delegated functions is set out below.

Paul George

Paul holds a degree in Accountancy and Financial Analysis from Warwick University, qualified as a chartered accountant with KPMG in 1985 and was made a partner in 1995. In addition to being responsible for the audits of many major public interest entities he managed one of KPMG's significant consulting businesses and was on their UK Consulting management committee.

Following KPMG, and prior to joining the Oversight Board, Paul was a main board director of a UK publicly quoted company specialising in helping multi-national companies improve their operational efficiency and the effectiveness of their finance functions.

Shazia Ahmad

After graduating from Warwick University with a degree in Economics and International Studies, Shazia trained as an auditor with Coopers & Lybrand. She then moved to KPMG where she spent the next five years in corporate tax, two of which were spent specialising in private equity within the Transaction services department.

She left KPMG in 2002 and joined the Competition Commission as an Accounting and Financial Adviser working on a number of high profile merger and market inquiries including the merger of HMV/Waterstones - Ottakars and investigating the profitability of extended warranties. Shazia joined POB in August 2006 and has worked on a number of projects including a review of practical training for auditors and promoting audit quality.

III. Details of any (proposed) supplementary resources that will be used in the exercise of the role of Independent Supervisor (e.g. legal resources or use of outside consultants)

The Oversight Board budget includes provision for legal and professional fees and research cost. Field Fisher Waterhouse LLP are the FRC's general legal advisers. In addition to the Oversight Board's budget for legal fees, the FRC has a general counsel and funds available centrally to cover unforeseen circumstances.

It is envisaged that external advisers will be used to supplement the expertise and availability of staff within the Oversight Board when necessary. While some of this expertise is readily supplied by our stakeholders without charge, funding is available within the budget where necessary.

IV. The arrangements in place and procedures to be used in the supervision of Auditors General

The Oversight Board has agreed in outline with the AGs and the Professional Accountancy Bodies the procedures to be followed to address the supervision functions and related obligations under the Independent Supervision Appointment Order. The work falls into four key areas; standards, monitoring, investigation and reporting.

Technical and ethical standards

- The AGs will be bound to the requirements of the auditing and ethical standards through agreement with the POB in respect of audit work carried out under the Companies Act.
- The individual staff members who will undertake the audit work on behalf of the AGs, and will be shown on the joint audit register as responsible individuals will automatically be bound by the technical standards through the Audit Regulations.

Monitoring

The Oversight Board's audit inspection unit stands ready to conduct inspection visits at each AG. In practice, depending on the number of audits conducted by an individual AG it might be more efficient for inspections to be carried out by one of the professional bodies. Arrangements for monitoring include:

- Inspection visits, comprising an annual review of the overall procedures adopted by each AG and of a sample of individual audits.
- The inspection staff reporting to the Oversight Board on the findings from these inspection visits and, as appropriate, making recommendations for improvements.

The Oversight Board would then consider the report of the inspection visit together with any undertakings from the AG concerned to rectify matters

identified; it will consider the continuing suitability of the AGs to continue as statutory auditors; and/or, if appropriate, it could refer for investigation and possible disciplinary action matters arising from the performance of an AG.

Investigation

The Oversight Board's arrangements for conducting investigations include:

- An initial review by Oversight Board staff if information is received (from another regulator, a monitoring visit, self declaration by the AG concerned or any other relevant source) which suggests it may no longer be appropriate for an AG to continue as a statutory auditor and the preparation of a report of the circumstances;
- Oversight Board staff presenting the report to the Oversight Board, which will determine whether it is minded on the evidence available to take no further action or whether it is appropriate to undertake a more detailed investigation;
- Oversight Board determining whether a formal investigation is appropriate and if so, the arrangements for carrying out detailed investigations of any matters arising from the performance of an AG. The Oversight Board will use its own resources and those of the AADB to undertake the investigation;
- Where appropriate the establishment of an Independent Disciplinary Tribunal to consider the findings of an investigation and to make recommendations to the Oversight Board
- When appropriate action by the Oversight Board, including the option of a Suspension Notice.

Reporting

The Oversight Board will report each year on the discharge of its functions as the Independent Supervisor to the Secretary of State, the First Minister of Scotland, the First Minister and deputy First Minister in Northern Ireland and the Assembly First Secretary in Wales

V. Requirements to prepare financial statements of our expenditure

The Oversight Board will analyse the costs associated with these functions and will notify the AGs in writing the relevant costs incurred and to whom they must be paid. An analysis of the costs will be included in our report to the Secretary of State and will be separately identified in the notes to the audited financial statements of the FRC.

VI. Steps taken to consult the Auditors General and other appropriate persons before entering into supervision arrangements

The Oversight Board staff continue to hold discussions with all appropriate persons to ensure that arrangements made for the Independent Supervision of the AGs are effective and practical. Discussions continue with:

- AGs - Discussions with the NAO have included issues surrounding monitoring of relevant audits, disciplinary matters, education and training, responsible individuals and the joint audit register. The Welsh, Scottish and Irish AGs were invited to participate however; they confirmed that they would allow the NAO to lead discussions on their behalf.
- Professional Bodies - The Institute of Chartered Accountants in England and Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS) and the Institute of Chartered Accountants in Ireland (ICAI) have been included in discussions to the extent that they will be required to ensure their members meet the standards expected of them by the Audit regulations.
- Accountancy and Actuarial Disciplinary Board - We are holding discussions with the AADB with a view to entering into a more formal arrangement for carrying out investigations and discipline.

VII. The arrangements for recording decisions made in the exercise of the role of Independent Supervisor and for the safekeeping of those records which ought to be preserved.

Any decisions made in the exercise of the independent supervision function will be taken at an appropriately constituted Board meeting. Papers prepared by Oversight Board staff and received from other parties for consideration by the Board and minutes of decisions taken therein are recorded electronically within the FRC secure information technology systems. Where it is necessary to retain hard copies of documents to prove authenticity these will be retained in a secure filing system. Records, however maintained, will be held for a period of not less than 10 years. In addition, records of decisions under the independent supervision function and supporting documentation will be retained for the period of the independent supervision function or ten years.

VIII. The arrangements for meeting the requirements of the Freedom of Information Act 2000 following the Oversight Board taking on the role of Independent Supervisor

From April 2008, the Oversight Board will become subject to the Freedom of Information Act (FOIA).

It is anticipated that we will apply the scheme as follows:

- Hold a three month public consultation of our proposed scheme;

- After the period of public consultation, we will seek approval of the publication scheme from the Information Commissioner;
- Place the scheme on our website for public availability;
- Deal with requests relating to requirements under the Companies Act from April 2008 in accordance with best practice guidance issued by the Information Commissioner.

MEMBERS OF THE PROFESSIONAL OVERSIGHT BOARD AS AT NOVEMBER 2007

Sir John Bourn KCB

Sir John Bourn is the Comptroller and Auditor General of the United Kingdom. As C&AG, Sir John is the head of the National Audit Office employing some 800 staff. Sir John has recently announced his intention to retire as C&AG at the end of January 2008.

From 2000 until the beginning of 2004, he was the Chairman of the Review Board, which was responsible for overseeing the regulatory activities of the accountancy bodies in the UK. Following the review of the regulation of the accountancy profession in 2002-03, he was appointed as the Chairman of the new Professional Oversight Board for Accountancy, now the Professional Oversight Board. He is also a member of the Financial Reporting Review Panel. .

Sir John was educated at the London School of Economics where he took a first class honours degree in Economics and a PhD. Before becoming C&AG he worked in a number of Government Departments including the Treasury, the Civil Service College and the Ministry of Defence, where he was Deputy Under Secretary of State for Defence Procurement.

Dick Barfield

Dick Barfield BSc, FFA was Chief Investment Manager of Standard Life in Edinburgh until 1996. Since then he has advised pension funds and venture capitalists on investment matters and served on the boards of a number of listed companies. He is currently a director of Umbro plc, Chairman of its Audit Committee and a director of 5 investment trusts.

Timothy Barker

Tim Barker was a Vice Chairman of Dresdner Kleinwort Benson, the investment banking division of Dresdner Bank A.G. from 1998 to 2000, having been Vice Chairman of Kleinwort Benson Group plc from 1993 to 1998 and previously Deputy Chief Executive and Head of Corporate Finance. In 1984 and 1985 he was Director General of the Panel on Take-overs and Mergers.

He is Senior Independent Director of Drax Group plc and a Director of Electrocomponents plc.

Anthony Carus

Anthony Carus is a maths graduate and a Fellow of the Institute of Actuaries. He has worked in the financial services industry since graduation in a variety of roles including as the Appointed Actuary of an insurance company. He has managed his own actuarial consultancy business since 2004. Anthony has also been closely involved in insurance industry matters nationally. He has chaired a working party for the Association of British Insurers, is a member of the Ogden Working Party on matters relating to personal injury claims and is Chairman of the Damages Working Party of the Institute and Faculty of Actuaries.

David Crowther

David Crowther FCA was a senior partner with PricewaterhouseCoopers and formerly Price Waterhouse where he served from Articles in 1963 until his retirement in June 2004. For the last 15 years, he was responsible for the firm's quality assurance and risk management programmes - concerned with quality inspection, regulatory and policy compliance, independence and business ethics, amongst other areas. Previously he was an audit partner working predominantly in the financial services sector.

David has since become a member of the Board of the Financial Ombudsman Service and a non-executive Director of TT Electronics PLC, a public company listed on the London Stock Exchange.

Hilary Daniels

Hilary Daniels is a Board Member and Chair of the Audit Committee of the Olympic Lottery Distributor. She is a Past President of the Chartered Institute of Public Finance and Accountancy and was formerly Chief Executive, West Norfolk Primary Care Trust and Norfolk Primary Care Trust.

Roger Davis

Roger Davis FCA was a partner in PricewaterhouseCoopers until he retired on 31 December 2003. He was head of professional affairs, PwC UK, Chairman of European regulatory team and PwC global regulatory leader. He has over 20 years' experience as an audit partner on large companies and was UK Head of Audit for many years.

He is a member of the Competition Commission.

Stella Fearnley

Stella Fearnley BA, FCA is professor of accounting at the Bournemouth University Business School. She has research expertise in auditor independence, professional ethics and regulatory enforcement. Before her academic career she had 17 years experience in public practice with Grant Thornton and Price Waterhouse. She was a member of the ICAEW Council for 13 years until 2004.

Paul George

(See CV within Appendix 1, page 2)

Michael Jones

Michael Jones is head of Management Services and Administration at the Trades Union Congress, where he has worked in a number of capacities since 1983. Earlier he had worked for the BBC and had been a Research Associate at the University of Warwick. He is a member of the Home Office Data Protection Tribunal and is a member of the Chartered Institute of Personnel and Development.

Anne Maher

Anne Maher is a Non-Executive Director of Allied Irish Banks plc. She is also a Governor of The Pensions Policy Institute and a member of the Actuarial Stakeholder Interest Working Group. She was until 2007 the Chief Executive of The Pensions Board for Ireland and a board member of the Irish Accounting and Auditing Supervisory Authority. She holds a law degree from University College Dublin.