



FINANCIAL REPORTING COUNCIL

**COST-EFFECTIVENESS OF FRC REGULATION –
DISCUSSION PAPER**

MARCH 2008

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One – Introduction and Executive Summary

The FRC's aim is to promote confidence in corporate reporting and governance.

We are committed to operate in accordance with the Principles of Good Regulation established by the Better Regulation Commission: proportionality, accountability, consistency, transparency, and targeting.

In line with this commitment we have in the past few years taken or proposed a range of actions to reduce the costs to market participants of the regulation for which we have responsibility. This document summarises these actions and invites stakeholders to comment on further opportunities to reduce regulatory costs whilst preserving confidence in corporate reporting and governance.

We hope that the publication of this document will stimulate a continuing dialogue with stakeholders about ways to improve the cost effectiveness of FRC regulation without compromising the achievement of high standards of corporate reporting and governance.

In assessing the actions which we have taken or proposed, and potential further opportunities, it is important to recognise that a substantial proportion of the regulatory requirements relating to corporate reporting and governance are determined not by the FRC but by European Union and UK legislation. We do, however, have a role to play in influencing the development of legislation.

This paper:

- summarises our approach to regulatory cost-effectiveness (section two)
- provides a commentary on cost-effectiveness in relation to the FRC's six Strategic Outcomes (section three), including:
 - recent actions we have taken to improve regulatory cost-effectiveness
 - proposals which we have issued for formal consultation
 - possible further proposals on which we might consult in the future.
- invites other suggestions of opportunities to improve the cost-effectiveness of FRC regulation whilst preserving confidence in corporate reporting and governance (section three).

Our approach to impact assessment is set out in Annex A. Our illustrative estimate of the costs associated with the preparation of statutory accounts and audit is at Annex B.

The document is designed to be read in the context of:

- our Regulatory Strategy, which is available on our website at <http://www.frc.org.uk/about>
- our Draft Plan & Budget 2008/09, at <http://www.frc.org.uk/about/plans.cfm>.

Our approach to regulatory cost-effectiveness

Section two summarises our approach to regulatory cost-effectiveness, which is based on:

- our regulatory principles, set out in our Regulatory Strategy, which include a commitment to a proportionate approach to regulation
- our Strategic Framework, also set out in our Regulatory Strategy, which defines the outcomes which we believe contribute to well-founded confidence in corporate reporting and governance in the UK.

We believe that opportunities for improved regulatory cost-effectiveness can conveniently be considered within four broad themes:

- removing current requirements
- simplifying current or proposed requirements
- restricting the application of current or proposed requirements
- making it easier/less costly for regulated entities to comply with current requirements.

We consider that our main focus should be on opportunities to improve regulatory cost-effectiveness from the perspective of those seeking to meet the standards we define, including SMEs, whilst preserving confidence in corporate reporting and governance. We are committed to providing value for money in our work and consult on our internal costs in the context of our Draft Plan & Budget.

We believe that this approach will help us to comply with the Government's Statutory Code of Practice for Regulators, published by BERR in December 2007. Provision 3.2 of the Code requires regulators to "keep under review their regulatory activities and interventions with a view to considering the extent to which it would be appropriate to remove or reduce the burdens they impose".

We will continue carefully to assess the likely impact of proposals designed to improve our regulatory cost-effectiveness.

Cost-effectiveness in relation to our Strategic Outcomes

Section three considers and seeks views on opportunities to improve cost-effectiveness in relation to our six Strategic Outcomes, whilst preserving confidence in the relevant aspects of corporate reporting and governance. It identifies where appropriate:

Recent actions we have taken to improve regulatory cost-effectiveness

Significant examples of actions we have taken in consultation with our stakeholders in order to contribute, among other objectives, to improved cost-effectiveness are shown in Table 1 on page 4. This is not intended to be a comprehensive list. Recent significant initiatives include:

- Reviewing the impact of the Combined Code on Corporate Governance
- Updating the Financial Reporting Standard for Smaller Entities
- Issuing new guidance for smaller entity audit documentation.

Proposals which we have issued for formal consultation

Proposals impacting on the cost-effectiveness of FRC regulation which are already the subject of consultation are summarised in Table 2 on page 4.

They include a major project to review the complexity and relevance of corporate reporting. The outcome of this project, which is included in our Draft Plan & Budget 2008/09, may help identify further opportunities for improved cost-effectiveness of FRC regulation.

Possible further proposals on which we might consult in the future

Further proposals which might be the subject of consultation if we subsequently pursue them are summarised in Table 3 on page 5.

They include a proposal to provide a summary of the FRC regulatory requirements which relate to SMEs and, if appropriate, similar summaries for other groups subject to FRC regulatory requirements.

We will, in addition, continue to publish our Quarterly Strategic Progress & Planning Report which highlights the consultations which we are undertaking or planning to undertake in relation to major proposals; and we will consider further ways in which we can make information about all our consultations more easily accessible to our stakeholders, including SMEs, and how each consultation relates to the achievement of the outcomes defined in our Strategic Framework.

Feedback

We would welcome feedback by 31 May 2008 from interested parties on:

- the question on our approach to regulatory cost-effectiveness, on page 10 in section two
- the questions on our current and possible further proposals for improved cost-effectiveness whilst preserving confidence in corporate reporting and governance, on page 25 in section three
- any other points you would like to make in relation to the cost-effectiveness of FRC regulation.

Contact details are set out in Annex D.

We will publish a feedback statement summarising the comments we receive.

Table 1 – Examples of recent actions we have taken to improve cost-effectiveness

Action	Rationale	Announced
Strategic Outcome One – Corporate governance		
Reviewed the impact of the Combined Code on Corporate Governance (page 12)	<i>Simplify current requirements</i>	October 2007
Strategic Outcome Two – Corporate reporting		
Updated the Financial Reporting Standard for Smaller Entities (FRSSE) (page 13)	<i>Simplify current requirements</i>	January 2007
Strategic Outcome Three – Auditing		
Issued Practice Note 26 on smaller entity audit documentation (page 17)	<i>Easier/less costly compliance with current requirements</i>	September 2007
Introduced new reporting arrangement for the AIU designed to enhance the transparency of inspection findings in a cost-effective manner (page 21)	<i>Easier/less costly compliance with current requirements</i>	December 2007

Table 2 - Proposals that are already the subject of formal consultation

Proposal	Rationale	Consultation
Strategic Outcome One – Corporate governance		
Removal of two restrictions included in the Combined Code on Corporate Governance (page 12).	<i>Remove current requirements</i>	Consultation document, January 2008
Strategic Outcome Two – Corporate reporting		
Review the complexity and relevance of corporate reporting (page 14)	<i>Simplify current requirements</i>	Included in Draft Plan 2008/09
Continue to promote cost-effectiveness considerations in the context of the further development of IFRS (page 14).	<i>Promote cost-effectiveness of proposed requirements</i>	Included in Draft Plan 2008/09
Possible application of the proposed IFRS for SMEs within the UK framework of accounting standards (page 15).	<i>Broaden scope of simplified requirements</i>	Included in Draft Plan 2008/09
Strategic Outcome Three – Auditing		
Continue to promote cost-effectiveness considerations in the context of the IAASB “Clarity” project and further development of ISAs (page 18).	<i>Promote cost-effectiveness of proposed requirements</i>	Included in Draft Plan 2008/09

Table 3 - Further proposals which may subsequently be the subject of formal consultation

Proposal	Rationale	Consultation
Strategic Outcome Three - Auditing		
Explore with the accountancy professional bodies opportunities to improve the training of auditors in relation to new international standards on auditing (page 18).	<i>Easier/less costly compliance with current requirements</i>	For discussion with the relevant professional bodies
Liaise with the RSBs and RQBs to identify appropriate opportunities to reduce the regulatory burden imposed on their members whilst maintaining compliance with the relevant legislation. (page 19)	<i>Easier/less costly compliance with current requirements</i>	For discussion with the relevant recognised bodies
Strategic Outcome Six - FRC effectiveness		
Provide a summary of the FRC regulatory requirements that relate to SMEs and, if appropriate, other groups subject to FRC regulatory requirements (page 24).	<i>Easier/less costly compliance with current requirements</i>	We will take account of the views of the ASB and APB SME Committees

Two – Our approach to regulatory cost-effectiveness

The FRC's aim is to promote confidence in corporate reporting and governance.

The regulatory functions we exercise can be summarised as follows:

- promoting high standards of corporate governance
- setting, monitoring and enforcing accounting and auditing standards
- setting actuarial standards
- statutory oversight and regulation of auditors
- operating independent investigation and discipline schemes for accountancy and actuarial public interest cases
- overseeing the regulatory activities of the professional accountancy and actuarial bodies.

Our functions are exercised principally by our Operating Bodies (the Accounting Standards Board, the Auditing Practices Board, the Board for Actuarial Standards, the Professional Oversight Board, the Financial Reporting Review Panel, the Accountancy and Actuarial Discipline Board) and by the Committee on Corporate Governance. Their membership includes a wide range of different skills and perspectives and is a considerable asset for the FRC in ensuring that the standards we set, and our monitoring and enforcement activities, are proportionate and cost-effective.

We believe that the costs associated with our regulatory functions derive largely from:

- compliance with standards set by the FRC or its Operating Bodies - recognising that for most of the areas in which we set standards, the standards we set are designed to support activities which market participants would undertake to meet the requirements of the market
- our monitoring and enforcement activities, which relate to compliance with financial reporting and auditing requirements, the oversight of the regulatory activities of the accountancy and actuarial professional bodies, and independent investigation and disciplinary arrangements in relation to the conduct of members and member firms of the professional accountancy bodies and members of the actuarial professional bodies.

Our approach to cost-effectiveness is based on:

- the broad assessments we have made about the costs associated with the regulatory framework for corporate reporting and governance
- our regulatory principles, set out in our Regulatory Strategy, which include a commitment to a proportionate approach to regulation.
- our Strategic Framework, also set out in our Regulatory Strategy, which defines the outcomes which we believe contribute to well-founded confidence in corporate reporting and governance in the UK.

- the international dimension to our work
- the need to consider factors relevant to small and medium-sized enterprises.

In assessing the actions which we have taken or proposed to improve regulatory cost-effectiveness, and potential further opportunities, it is important to recognise that a substantial proportion of the regulatory requirements relating to corporate reporting and governance are determined not by the FRC but by European Union and UK legislation. We do, however, have a role to play in influencing the development of legislation.

Subject to these constraints, we believe that opportunities for improving regulatory cost-effectiveness, whilst preserving confidence in corporate reporting and governance, can conveniently be considered within four broad themes:

- removing current requirements – identifying requirements which are no longer appropriate
- simplifying current or proposed requirements – identifying opportunities to achieving the same regulatory objectives through a less costly measure
- restricting the application of current or proposed requirements – either by restricting them to a narrower category of regulated entity, or broadening the scope of existing or proposed simplified requirements - identifying opportunities to more effectively target regulatory requirements while achieving the same regulatory objectives
- making it easier/less costly for regulated entities to comply with current requirements.

We believe that it is appropriate to assess the impact of proposals designed to improve the cost-effectiveness of existing regulation to ensure that they provide real benefits to regulated entities without compromising the achievement of high standards of corporate reporting and governance. Our approach to the preparation of impact assessments is set out in Annex A.

Assessing the costs associated with FRC regulation

We believe that, in evaluating ways of improving the cost-effectiveness of FRC regulation, whilst preserving confidence in corporate reporting and governance, our main focus should be on opportunities to enhance it from the perspective of those seeking to meet the standards we define.

To illustrate why we have taken this focus as our starting point in considering opportunities for improved cost-effectiveness, we have provided, at Annex B, an illustrative broad estimate of the costs associated with the preparation and audit of statutory accounts. Our illustrative broad estimate suggests that the overall costs are substantial – in the order of £2bn for accounts preparation and a further £2bn for audit. In relation to accounts preparation, the costs are an estimate of the additional costs related to converting management accounts into statutory reports that comply with applicable law and accounting standards. This is obviously a simplification as the accounting policies used for the preparation of management accounts will

often be impacted by accounting standards. The costs identified in Annex B derive in part from the legislative framework which is the responsibility of the Government and in part from the requirements which the FRC sets within this framework. There is no automatic link between changes to the scope of the regulatory requirements we impose and potential savings for the regulated community.

However, the illustrative broad estimate suggests that by comparison, the overall direct cost of the FRC is relatively modest. Our Draft Plan & Budget 2008/09 sets a budget of £16.1m for our responsibilities in relation to accounting, auditing and corporate governance (with 86 staff). The costs associated with these responsibilities are the most significant in terms of our operational expenditure.

We have not analysed in detail the costs associated with our responsibilities for actuarial standards and regulation. In particular, we do not have comparable data on compliance costs. However, we can put the cost of our activities in the context of the insurance and pension liabilities which potentially come within the scope of actuarial advice. The data used by the FSA to calculate their periodic fees for insurance companies suggest that the liabilities for which actuarial information is potentially relevant are in the order of £996bn - £870bn in relation to mathematical reserves for long-term business and £126bn for general insurers' gross technical liabilities. The Pension Protection Fund "Purple Book 2007" includes an estimate that on a full buy-out basis, the total liabilities of UK defined benefits pension schemes is in the order of £1,100bn.

Our costs in relation to actuarial standards and regulation are very modest in comparison to the importance of actuarial advice in relation to these liabilities. Draft Plan & Budget 2008/09 sets a budget of £2.2m (with 8 staff) for our actuarial responsibilities.

We consult on our internal costs in the context of our annual Plan & Budget.

Our regulatory principles

Our Regulatory Strategy sets out our approach to regulation, which is based on our view that regulation is not an end in itself; and that our role in promoting confidence in corporate reporting and governance contributes to the economy overall and the UK's international competitiveness.

We are committed to the Better Regulation Commission principles of good regulation: proportionality, targeting, consistency, transparency and accountability. We aim to:

- Work on the basis that a well-informed market is the best regulator but, in relation to some of our responsibilities, we have been given significant powers and we do not hesitate to use them where appropriate.

- Target the use of our powers, taking a proactive, risk-based and proportionate approach, making effective use of impact assessments and having particular regard to the impact of regulation on small enterprises.
- Emphasise principles and clarity in our standard-setting and rule-making and seek to ensure, as far as it is appropriate to do so, that we are consistent with international standards.
- Be consultative - involving preparers, auditors, actuaries, users of corporate reports and other regulatory organisations in our decision-making and allowing adequate time for consultation, without compromising our independence or confidentiality.
- Recognise the importance of professional judgement in the way in which standards and rules are applied and enforced.
- Where we discharge a judicial or quasi-judicial function, do so in accordance with our formal powers and the rules of natural justice.
- Be transparent, accountable and efficient in our work, and ensure that it receives appropriate publicity.

We believe that applying these regulatory principles contributes to the cost-effectiveness of FRC regulation.

Our Strategic Framework

Our Strategic Framework defines the outcomes we believe contribute to well-founded confidence in corporate reporting and governance in the UK. The Framework sets out the overall Aim which the FRC promotes – confidence in corporate reporting and governance – and the six Strategic Outcomes which contribute to our Aim in relation to corporate governance, accounting, auditing, actuarial practice, the professionalism of accountants and actuaries, and our own effectiveness as a regulator.

The Strategic Framework helps us both to analyse the major risks to confidence based on the outcomes we have defined in consultation with our stakeholders and to develop our annual work programme in response to that analysis – contributing to a risk-based and proportionate approach to FRC regulation.

We believe that developing the work programme included in our annual Plan & Budget on the basis of a Strategic Framework developed in consultation with our stakeholders, and our consultative approach to the development of our annual Plan & Budget, contribute to the effective targeting of our work and hence the overall cost-effectiveness of FRC regulation.

The international dimension to our work

The regulatory framework for corporate reporting and governance in the UK is increasingly determined at EU and international levels. We are actively engaged in influencing EU and

international initiatives, including the development of international standards on financial reporting and auditing and their implementation by the EU, but we do not ultimately determine these standards. This means that there are some aspects of the regulatory regime for which the FRC is responsible in relation to which our ability to take action to improve their cost-effectiveness is constrained.

We believe that in our influencing role we should continue to place considerable emphasis on the importance of ensuring that the costs imposed in relation to international standards and EU implementation are proportionate to the benefits they are intended to provide, and hence the cost-effectiveness of those aspects of the regulatory regime.

In the EU, the Commission has its own better regulation initiative and in January 2007 presented its own programme to cut administrative burdens on business by 25 per cent by 2012. As part of this programme, the Commission has consulted on proposals to simplify the business environment for EU companies. We will take EU developments into account in considering further opportunities for improving the cost-effectiveness of FRC regulation.

Taking account of the interests of SMEs

A number of aspects of FRC regulation apply to small and medium-sized enterprises. Section three of this document notes in particular:

1. the contribution of the ASB's Committee on Accounting for Smaller Entities (CASE)
2. the contribution of the APB's SME Audit Sub-Committee
3. our proposal to provide a summary of the FRC requirements that apply to SMEs.

Consultation questions on the FRC's approach to regulatory cost-effectiveness

1. **Do you have any comments on our approach to improving the cost-effectiveness of FRC regulation whilst preserving confidence in corporate reporting and governance?**

Three – Cost-effectiveness in relation to the FRC’s Strategic Outcomes

This section considers the cost-effectiveness of those aspects of the regulatory regime for which the FRC is responsible in relation to each of the six Strategic Outcomes defined in the Strategic Framework.

It identifies, where appropriate:

- actions we have taken to improve regulatory cost-effectiveness whilst preserving confidence in corporate reporting and governance
- proposals which we have issued for formal consultation
- possible further proposals on which we might consult in the future.

We would welcome comments on the questions set out on page 25.

Strategic Outcome One – Corporate governance

UK companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.

The UK has developed a market-based approach in relation to corporate governance which is designed to enable boards to retain flexibility in the way in which they organise themselves and exercise their responsibilities, while ensuring that they are properly accountable to their shareholders.

The regulatory framework for corporate governance is based on the Combined Code on Corporate Governance. The current version of the Combined Code applies to all financial years beginning on or after 1 November 2006. UK companies listed on the London Stock Exchange’s Main Market are required under the UKLA’s Listing Rules to follow its provisions or provide an explanation in their annual report of why they have not done so (known as “comply or explain”).

The Combined Code identifies good governance practices relating to, for example, the role and composition of the board and its committees and the development of a sound system of internal control, but companies can choose to adopt a different approach if that is more appropriate to their circumstances. Where they do so, however, they are required to explain the reason to their shareholders who must decide whether they are content with the approach that has been taken.

We believe that the UK approach combines high standards of corporate governance with relatively low associated costs.

Studies consistently show that the UK outperforms other countries in terms of governance standards, and that standards within the UK continue to rise. Reports published in 2005 by the FTSE ISS Corporate Governance Index and Governance Metrics International both put the UK at the top of the list of countries by average corporate governance score. A survey carried out by the National Association of Pension Funds in the same year found that 94% of large UK pension funds believed that corporate governance standards in UK companies had improved.

Compliance costs in the UK are considered to be lower than in other countries with comparable standards. A study published in June 2006 by Oxera on behalf of the London Stock Exchange found that the corporate governance requirements were seen by some companies as one of the main factors influencing the choice between a UK and US listing (to the advantage of the UK).

The Combined Code on Corporate Governance

Action we have taken to improve regulatory cost-effectiveness

During 2007, the FRC reviewed the impact of the Combined Code. The review suggested that the Code continues to have a broadly beneficial impact, and is seen as having contributed to higher overall standards of governance among UK listed companies. The evidence provided by the Review suggested that we should focus our efforts on improving the practical application of the Code as this would be of greater benefit than a major overhaul of the contents of the Code, which enjoyed broad support.

Proposals we have issued for formal consultation

Two limited changes to the Code were proposed as a result of the Review. The effect of these proposals would be to remove the restriction on an individual chairing more than one FTSE 100 company; and, for listed companies outside the FTSE 350, to allow the company chairman to be a member of, but not chair, the audit committee provided he or she was considered independent on appointment.

Consultation on the proposed amendments is being carried out in parallel with an FSA consultation document on the draft new FSA Rules needed to implement the corporate governance requirements in the 4th and 8th Company Law Directives (which respectively require listed companies to produce a corporate governance statement and to have an audit committee).

Strategic Outcome Two – Corporate reporting

Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.

Accounting standards

The ASB is recognised for the purpose of issuing accounting standards under the Companies Act 2006. Publicly-traded companies are now required to apply in their group financial statements International Financial Reporting Standards (IFRS) as adopted by the EU. Other companies can choose to apply IFRS as adopted by the EU. The ASB collaborates with accounting standard-setters from other countries and the International Accounting Standards Board (IASB) both in order to influence the development of international standards and in order to ensure that its standards are developed with due regard to international developments.

The ASB is autonomous in its role in issuing standards. It is, however, the practice of the Board to consult widely on all its proposals. Generally the development of a new accounting standard involves at least two formal consultation documents, a Discussion Paper and a Financial Reporting Exposure Draft (FRED). The ASB operating guidelines include a commitment to: “Issue accounting standards only when the expected benefits exceed the perceived costs. The Board recognises that reliable cost/benefit calculations are seldom possible. However, it will always assess the need for standards in terms of the significance and extent of the problem being addressed and will choose the standard which appears to be the most effective in cost/benefit terms”.

Financial Reporting Standard for Smaller Entities (FRSSE) - action we have taken to improve regulatory cost-effectiveness

The most striking example of the ASB’s commitment to cost-effectiveness has been the development of the FRSSE, which is a standard that may be applied by companies that qualify as small under the Companies Act 1985 and other entities that would have qualified as ‘small’ had they been incorporated. Entities adopting the FRSSE are exempt from applying all other accounting standards and UITF Abstracts. This considerably reduces the volume of accounting standards those entities need to comply with or refer to. However, it remains open to them to choose not to adopt the FRSSE and to comply with the other UK accounting standards and UITF Abstracts instead or, if they are companies, international accounting standards.

The FRSSE brings together the relevant legal and accounting requirements and disclosures from the other accounting standards and UITF abstracts, simplified and modified as appropriate for smaller entities. The basic measurement requirements in the FRSSE are the same as those in other accounting standards (although with some slight simplifications), but many of the disclosure and presentation requirements of other standards have not been included in the FRSSE. The FRSSE was last updated in February 2007. That updating involved a major

simplification in terms of FRS 20, 'Share-based payment'.

The FRSSE is kept under review by the Committee on Accounting for Smaller Entities (CASE), which the ASB established as a standing committee to advise it on accounting for smaller entities. CASE's membership represents a wide spread of interests (including practitioners, businessmen, users and others with interest in smaller businesses). CASE will continue to monitor the impact of developments in accounting standards and company law and recommend to the ASB future updates of the FRSSE, as appropriate. In particular, CASE will consider the impact of the Companies Act 2006 which provides a comprehensively revised code of company law for the UK with the Government aiming to bring into force all elements of the new legislation by October 2008.

The ASB will also continue to monitor the progress of the International Accounting Standards Board's project to develop an accounting standard for Small and Medium Sized Entities.

Accounting standards - proposals we have issued for formal consultation

There are limited opportunities at present for the removal or simplification of current requirements for accounting standards for companies continuing to prepare their accounts in accordance with UK GAAP. However, we are pursuing three major projects and on-going activities which should contribute over the medium term to the cost-effectiveness of FRC regulation whilst preserving confidence in corporate reporting and governance:

Complexity and relevance of corporate reporting requirements

The FRC will during 2008/09 commence a project to review the complexity and relevance of corporate reporting requirements. This project will consider whether corporate reporting requirements are disproportionate to their intended benefits and whether there are opportunities to improve them. It will address the risk that corporate reporting requirements, and related influential guidance, are contributing to the increasing complexity of corporate reports without making them more useful or understandable. The scope of the project includes requirements relating to financial statements, accompanying management commentary and other reports. The outcome of this project may help identify further opportunities for improved cost-effectiveness of FRC regulation.

Influencing the development of IFRS

The ASB will continue to seek to influence the development of IFRS in a way that takes cost-effectiveness into account. This activity is part of a continuing commitment to influence the overall direction of IFRS and individual standards and is intended to contribute to continuing work to develop globally accepted accounting standards. The aim is to encourage the development and adoption of standards which are principles-based and bring benefits to both

providers and users of capital without imposing excessive costs or inhibiting the responsiveness of accounting standards to new circumstances.

Convergence between UK accounting standards and IFRS

The ASB will continue to consider its strategy for convergence with IFRS and whether the proposed IFRS for SMEs might be applied by medium-sized (and possibly larger) entities.

This project is intended to help to determine the appropriate degree of convergence between UK reporting standards and international standards, taking into account both the potential benefits and costs of convergence to UK preparers and users; and help to determine the future shape of the UK accounting regime, taking into account the size and degree of public interest in the entities to which it applies.

Monitoring and enforcing compliance with accounting standards

The FRRP reviews accounts for compliance with the law and accounting standards. The Panel reviews the annual accounts and directors' reports of public and large private companies and keeps under review interim and final reports of certain other listed issuers. It is the role of the Panel to enquire into cases only where it appears that the relevant reporting requirements have not been followed. The Panel does not write to every company whose accounts it reviews. Generally, it writes where there are potential matters of substance about which additional explanation or clarification is required in order to understand whether there is a point of non-compliance. More minor matters, which may be apparent omissions of disclosure, are often brought to the company's attention by way of an appendix to which a substantive response is not expected.

The FRRP's risk-based approach - action we have taken to improve cost-effectiveness

The FRRP applies a risk-based approach to its selection of accounts for review. The Panel discusses with the Financial Services Authority and the FRC's Standing Advisory Group which sectors of the economy are under strain or likely to give rise to difficult accounting issues. The Panel chooses a number of sectors and reviews a selection of accounts in each, drawn from across the range of entities within its remit, including AIM quoted and large private companies. There is usually a focus on the larger listed companies where there is greater risk of significant consequences if there are instances of substantive non-compliance.

The Panel is developing its own risk model to identify individual cases where accounting problems are more likely – cases of poor corporate governance for example. The Panel may also look at specific topical accounting issues. It also responds to complaints and referrals from the public, the press and the City.

Our assessment is that the FRRP continues to be recognised by the reporting community as an effective mechanism in promoting compliance with financial reporting requirements without

imposing disproportionate costs on regulated entities. The FRRP participates in the relevant EU groupings, including the European Enforcers Co-ordination Sessions, and promotes the benefits of the UK's targeted and proportionate approach to ensuring compliance with financial reporting requirements.

Strategic Outcome Three – Auditing

Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view.

Auditing and ethical standards

The APB sets standards and guidance for the performance of external audit and other activities undertaken by accountants that result in reports or other output that is published, required by law or otherwise relied upon in the operation of the financial markets ('assurance services'); and in relation to the independence, objectivity and integrity of external auditors and the providers of assurance services.

In considering opportunities to reduce the costs imposed on auditors (and indirectly on companies who pay their fees and shareholders who forgo higher distributable profits because of this) the APB believes that it is imperative that it does not act to reduce audit quality. While periodically some companies have commented adversely on the cost of audit it is APB's experience that investors are primarily interested in audit quality. The point is made that one audit failure can result in the loss of billions of pounds of shareholder value; in comparison to this the cost of an audit is relatively small. A similar view, that quality rather than cost was important, was evident from the POB research into the audit needs of small entities (a summary of which was published in March 2006).

Given these factors, the APB does not see opportunities for the removal or significant simplification of current requirements of auditing standards or ethical standards because:

- to do so would risk reducing audit quality and in the views of investors (the main beneficiary of an audit) of both large and small companies audit quality is of paramount importance,
- it remains likely that ISAs will be adopted for use within the EU. It would not be helpful for the APB to weaken its existing linkage to the ISAs for a short period of time only for the ISAs to be reintroduced through European legislation, and
- auditing standards are closely inter-related with audit methodologies. It is far from clear that a reduction in standards would change the methodologies of the audit firms and that, therefore, any cost saving would result.

The EU position on ISAs is critical to any decision by APB to change the existing auditing standards in relation to statutory audits. There is more flexibility in relation to non-statutory audits undertaken in the UK and Ireland ie. 'voluntary' audits of small companies, though as shown in Annex B the overall cost of these is relatively small.

Smaller audits - Action we have taken to improve regulatory cost-effectiveness

Research undertaken by the POB and published in March 2006 suggests that over 80% of small UK companies do not now have an audit. Audit exemption has also been introduced in some other sectors, eg charities and financial service entities. That said, 'voluntary' audits of small companies are still relatively numerous, and 'non-statutory' audits are undertaken of many small charities, clubs and associations. An interesting finding from the POB research published in March 2006 was that when stakeholders in a small company decide to require a 'voluntary' audit they want a 'high quality audit'. There does not seem to be any support for standards to be reduced in such circumstances.

In relation to smaller audits the APB has:

- undertaken a regulatory impact assessment on its Ethical Standards which resulted in the promulgation of Ethical Standard: Provisions Available for Small Entities
- established an SME Audit Sub-Committee which amongst other work as reviewed draft ISAs for applicability to smaller audits, and
- issued Practice Note 26 on SME audit documentation designed to assist small practitioners apply the audit risk standards in a consistent and cost-effective manner.

The impact of auditing standards on smaller audits has been significantly reduced because of changes in legislation allowing many small companies to opt out of having a statutory audit.

The audit exemption threshold is contained in legislative provisions for which BERR is responsible and which are largely governed by EU requirements. We will follow closely any developments arising from the recent EU initiative to simplify the business environment for EU companies, including SMEs, which have implications for the range of entities to which auditing standards apply.

International auditing standards - proposal already issued for formal consultation

In 2004, mindful of the likelihood that International Standards on Auditing (ISAs) would be adopted in the EU, the APB replaced the existing Statements of Auditing Standards with ISAs (UK and Ireland). ISAs (UK and Ireland) are the ISAs, as issued by the International Auditing and Assurance Standards Board (IAASB), augmented, where necessary, by a relatively small number of additional standards (and rather more guidance) to maintain the quality and clarity of previous UK and Irish auditing standards.

In 2006 the EU finalised the Statutory Audit Directive which provides a basis for the adoption of ISAs in the EU for all 'statutory audits'. The EU has much work still to do before the European Parliament agrees to the adoption of ISAs; it is unlikely that this will take place before 2009.

Included in our Draft Plan & Budget 2008/09 is a major ongoing activity in relation to international auditing standards.

The APB will continue to contribute to the IAASB work to improve ISAs and work towards their adoption in the EU. The APB will encourage improvements to ISAs which support a principles-based approach and avoid overly prescriptive requirements which might undermine the importance of professional judgement.

Implementing international auditing standards

Changes to auditing standards invariably involve additional cost. Experience shows that this additional cost can be minimised if auditors are properly trained in the nature of the changes and provided with assistance to implement them effectively.

In anticipation of the adoption of ISAs by the EU, the APB intends to promote with the accountancy professional bodies improved training of auditors in relation to the implementation of new auditing standards.

Ethical standards

The APB is currently reviewing ethical standards. Issues being addressed in this review include whether to retain the reliefs and exemptions in the Ethical Standard: Provisions Available for Small Entities, and whether to increase the time period for audit partner rotation from five to seven years.

Standards for investment reporting

APB has only recently updated the Standards for Investment Reporting (SIRs) to reflect the EU Prospectus Directive. In doing so APB concluded that the standards would not have a significant impact on the cost of work performed in the UK. Rather APB is hoping that the SIRs will act to improve the quality of work that reporting accountants in other EU Member States perform on prospectuses.

Oversight of the regulation of the auditing profession by the professional bodies

The POB is responsible for independent oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies, and for monitoring the quality of the auditing function in relation to economically significant entities.

The POB's work is predominantly the enforcement of existing rules and regulations and therefore the incremental costs incurred by the regulated entities should be considered to result from the initial regulatory requirements. Some recommendations made by the POB go beyond mere compliance with existing rules and regulations; eg to improve audit quality or to establish more effective systems and procedures. The POB takes care to ensure that such recommendations are proportionate and, in any event, the associated costs are not considered significant.

The POB discharges on behalf of the FRC the statutory responsibilities delegated to it by the Secretary of State for authorising professional accountancy bodies to act as supervisory bodies and/or to offer a recognised professional qualification. POB assesses whether:

- the recognised supervisory and qualifying bodies comply with all the statutory requirements for recognition set out in the Companies Act 1989
- the recognised supervisory bodies comply with the independent standard setting, monitoring and disciplinary arrangements which the legislation provides for.

The professional accountancy bodies continue to have the primary regulatory responsibility for the supervision of their members acting in their professional capacity. In relation to audit, as recognised qualifying bodies, they must have effective arrangements in place to ensure that their audit qualifications meet the statutory requirements; and, as recognised supervisory bodies, they must have in place amongst other things effective arrangements for registration, monitoring and disciplining of auditors.

Monitoring the regulatory activities of the RSBs and RQBs - possible further proposal

The POB carefully weighs the regulatory benefits against possible costs in relation to its oversight activities. The POB has reviewed its approach to the monitoring of the inspection of the Recognised Qualifying or Supervisory Bodies to focus on areas where there might be particular risks and on the implementation of prior year recommendations, following up specific points as appropriate. The POB is as part of this approach considering the appropriate cycle of inspection visits to the recognised bodies to ensure that visits do not impose unnecessary costs on the bodies.

More significantly from the perspective of the members of the recognised bodies, the POB considers, as part of its monitoring role, the way in which the RSBs and RQBs implement the relevant regulatory requirements.

The POB will liaise with the RSBs and RQBs to identify appropriate opportunities to reduce the regulatory burden imposed on their members whilst maintaining compliance with the relevant legislation.

Monitoring audit quality

The POB's Audit Inspection Unit (AIU) is responsible for the monitoring of the audits of all listed and other major public interest entities. The professional accountancy bodies continue to register firms to conduct audit work with their regulatory activities being overseen by the POB. The audit registration committees of the accountancy bodies receive formal reports from the AIU on its monitoring work, with the POB overseeing the action taken by them in response to the AIU's recommendations. The Companies (Audit, Investigations and Community Enterprises) Act 2004 implemented the statutory changes necessary to give effect to these arrangements.

The scope of the AIU's inspections is the audit of all entities with listed securities (both equity and non-equity securities) and other entities in whose financial condition there is considered to be a major public interest. The POB is responsible for approving the AIU's work programme and, in particular, determining which audited entities fall within the "major public interest" category and therefore within the scope of its work. The monitoring units of the professional bodies remain responsible for the monitoring of other audits within the scope of audit regulation in the UK (i.e. those which are not within the scope of independent inspection by the AIU).

In addition to the Big 4 Firms, there are a small number of other major firms which audit a significant number of entities within the scope of the AIU's work ("Other Larger Firms"). Both the Big 4 Firms and the Other Larger Firms are subject to full scope AIU inspections.

For all other firms which have one or more audits falling within the scope of the AIU's work ("Smaller Firms"), its work is limited to the review of one or more of these audits. The firm-wide procedures of the Smaller Firms are reviewed by the monitoring unit of the professional body with which the firm is registered.

The AIU allocates its resources in accordance with its assessment (as approved by the POB) of the relative levels of public interest involved, thereby ensuring that the principal focus of independent inspection is on those audit firms and individual audits where the level of public interest is highest. Accordingly while the Big 4 firms are all inspected annually, following changes made in 2007, certain of the Other Larger Firms are now subject to an extended inspection cycle (every 18 - 24 months). The scope and frequency of inspections of the Smaller Firms is designed to meet the statutory requirements for independent inspection in a proportionate manner, taking account of the inspection work undertaken at these firms by the monitoring units of the professional bodies.

The AIU's monitoring approach is intended to be challenging for the firms, focusing on audit judgments as well as audit processes. Consequently the AIU has developed and implemented an approach to audit monitoring for the major firms based on the following characteristics:

- focus on the quality of auditing
- a thorough, robust and challenging approach to inspection visits

- wide-ranging reviews of firm-wide procedures, including an assessment of how the culture within firms impacts on audit quality
- risk-based selection of individual audits for review
- in-depth reviews of individual audits, addressing identified areas of risk and including critical assessment of the key audit judgments made in reaching the audit opinion
- an assessment of the quality of communications with the Audit Committee.

Audit inspection - action we have taken to improve cost-effectiveness

In December 2007, the POB published details of new reporting arrangements for the AIU, which are designed to meet increased expectations regarding the transparency of inspection findings in a cost-effective manner and reflect the outcome of extensive consultation with stakeholders.

Future considerations

As a result of the Companies Act 2006 and the Statutory Audit Directive the POB has acquired three further responsibilities:

- setting regulations for transparency reporting by public interest auditors
- the regulation of third country auditors
- the independent supervision of Auditors General.

The POB will take account of cost-effectiveness in implementing each of these new responsibilities.

Strategic Outcome Four – Actuarial practice

Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.

The FRC commenced its responsibilities for setting actuarial standards in April 2006, following the recommendations of the Morris Review of the Actuarial Profession published in March 2005.

In order to meet its remit to set independent high quality actuarial standards the FRC established the Board for Actuarial Standards (BAS) which adopted the technical standards set by the Actuarial Profession and commenced the process of creating a new conceptual framework for actuarial standards and reforming individual standards in line with the needs of the users of actuarial information.

The BAS has consulted publicly on the key issues that need to be addressed in establishing the new conceptual framework.

The BAS is, in parallel, preparing a programme for reforming individual standards. The process of reforming existing standards and, where appropriate, developing new standards will be subject to the FRC's approach to the preparation of impact assessments.

Strategic Outcome Five - Professionalism of Accountants and Actuaries

Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.

Oversight of the regulatory activities of the professional bodies

The professional bodies make a direct contribution to the costs of our regulatory activities through the funding arrangements we have agreed with them. They also incur some costs arising from our role in supervising their regulatory activities in relation to their members, for example in implementing FRC recommendations for enhancing the effectiveness of their regulatory activities.

In relation to the regulation of the accountancy profession, the POB reviews the regulatory activities of the professional accountancy bodies in relation to their members, including education, training, continuing professional development, standards, ethical matters (except those which are the responsibility of the Auditing Practices Board) professional conduct and discipline, registration and monitoring, and makes recommendations on how these activities might be improved. Those professional bodies who are Recognised Qualifying or Supervisory Bodies are required to have regulatory systems and procedures to give effect to legislative requirements.

In relation to the regulation of the actuarial profession, the POB reviews the regulatory activities of the professional actuarial bodies in relation to their members, including education, training, continuing professional development, ethical standards, professional conduct and discipline, practising certificates and monitoring, and makes recommendations on how these activities might be improved.

The POB's activity in this area is project based and is a relatively small proportion of its activity. The POB will continue to follow good regulatory practice in determining the need for and scope of any project activity.

Independent disciplinary arrangements

The AADB is the independent, investigative and disciplinary body for accountants and actuaries in the UK. The AADB is responsible for operating and administering independent disciplinary schemes.

The Accountancy Scheme covers members of the following accountancy professional bodies: the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants, the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in Ireland, the Institute of Chartered Accountants of Scotland, and the Institute of Chartered Accountants in England and Wales.

The Actuarial Scheme covers members of the Institute of Actuaries and the Faculty of Actuaries in Scotland.

The focus of the AADB is on cases which raise important issues affecting the public interest; other disciplinary cases continue to be dealt with by the relevant professional body. The purpose of an investigation is to determine whether there is evidence of misconduct on the part of members or member firms of the professional bodies. An investigation does not always mean that an allegation has been made or that there is evidence of misconduct on the part of the member or member firm involved.

Disciplinary Complaints filed following an AADB investigation are heard by an independent Tribunal which will normally sit in public. If the Tribunal upholds a Complaint, there is a wide range of sanctions which it can impose, including an unlimited fine, exclusion from membership of a professional body and withdrawal of practising certificates or licenses.

The AADB is currently consulting on a number of changes to the disciplinary scheme for the accountancy profession, as part of which an impact assessment will be completed. The consultation document includes a preliminary impact assessment, including an assessment of the costs and benefits of the proposed changes.

Strategic Outcome Six – FRC Effectiveness

The FRC is an effective, accountable and independent regulator, actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.

This Outcome relates to the FRC's role as an effective, accountable and independent regulator. It commits the FRC to have in place, and consistently implement, policies on good regulation, including effective use of impact assessments, and to have particular regard to the impact of regulation on small enterprises.

Although the scope of our work is not directly comparable, we are significantly smaller than the UK regulatory authorities with which we work most closely. The FSA's proposed Annual Funding Requirement for 2008/09 is £320m (with approximately 2,740 staff). The Pensions Regulator's projected budget for 2008/09 is £30m (with approximately 290 staff).

As we explain in our Draft Plan & Budget 2008/09, we remain committed to providing value for money whilst remaining effective in dealing with our growing list of responsibilities and current issues. When the FRC's remit was expanded in 2003 we projected a budget for core operating costs of £12m. Our budget for 2008/09 for core operating costs remains below this level in cash terms, and is significantly lower in real terms and taking account of the further increases in our responsibilities since 2003.

We believe that we take account of regulatory cost-effectiveness across the wide range of our activities on the basis of the approach described in section two of this paper, and continue to implement our approach systematically and effectively both in evaluating new proposals and in keeping under review the impact of our existing regulatory requirements, as described in section three.

Summary information provided to SMEs - Possible further proposal

We believe that there are strong connections between the issues with which we deal, and that the breadth of our responsibilities and functions enhances our effectiveness. However, the range and complexity of our responsibilities mean that we need to keep under review the way in which we communicate regulatory requirements to particular groups of stakeholders.

In May 2007, we published a summary of those aspects of our work which are relevant to the public sector. We believe that this was a helpful initiative.

We propose to examine ways in which we can improve the user-friendliness, and hence cost-effectiveness, of FRC regulation in terms of the information we provide to SMEs and, if appropriate, other groups subject to FRC regulatory requirements.

We will not consult formally on this proposal but will seek the views of stakeholders as appropriate in taking it forward.

We will, in addition, continue to publish our Quarterly Strategic Progress & Planning Report which highlights the consultations which we are undertaking or planning to undertake in relation to major proposals; and we will consider further ways in which we can make information about all our consultations more easily accessible to our stakeholders, including SMEs, and how each consultation relates to the achievement of the outcomes defined in our Strategic Framework.

Consultation questions on cost-effectiveness in relation to the FRC's Strategic Outcomes

- 2. Do you agree that the actions we have already implemented to improve the cost-effectiveness of FRC regulation have been helpful? Are there any aspects of those actions which are particularly relevant to the development of further proposals?**
- 3. Do you agree that the further proposals we have identified can potentially further improve the cost effectiveness of those aspects of the regulatory regime for which the FRC is responsible whilst preserving confidence in corporate reporting and governance?**
- 4. Are there any additional aspects of FRC regulation where you believe there are opportunities to improve the cost-effectiveness of those aspects of the regulatory regime for which the FRC is responsible?**
- 5. Do you have any comments from the perspective of smaller enterprises subject to FRC regulatory requirements?**

Annex A – Our approach to impact assessments

Our regulatory principles, published in our updated Regulatory Strategy, commit us to: Target the use of our powers, taking a proactive, risk-based and proportionate approach, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

The FRC follows three guiding principles in producing impact assessments:

- The work that goes into the production of an impact assessment should be proportionate to the importance of the proposal that it covers.
- Where a standard is being introduced as a direct response to legislation or regulation, or as part of an agreed policy commitment to adopt international standards of accounting or auditing, the impact assessment should explain the rationale for introducing the standard and should focus on any aspects of the proposed standard which augment the relevant legislation or augment or diverge from the relevant international standard.
- Where appropriate, we are particularly alert to the impact of proposals on small businesses.

Our projects and activities fall into the following categories, and there are differences between the categories as to what is likely to constitute an appropriate impact assessment:

- Influencing EU, international and UK Government proposals. We will encourage those bodies to prepare impact assessments, and we will contribute to those impact assessments.
- Implementing EU, international or UK Government proposals. We will prepare an “implementation” impact assessment addressing the scope and timing of implementation and any elements which augment or diverge from the proposal which is being implemented (eg in relation to the implementation of IFRS).
- Leading the UK debate on the response to an emerging risk/market development. We will consider the rationale for regulation and alternatives to regulation, the first step in the preparation of an initial impact.
- Implementing FRC new regulatory requirements. We will prepare an impact assessment based on the Better Regulation Executive guidance.
- Proposals to provide or update guidance on existing requirements (eg in updating guidance notes). We will produce an impact assessment based on an appropriate simplified approach.
- Proposals relating to monitoring, enforcement and discipline. For policy proposals, we will prepare an impact assessment. For individual cases, action will be demonstrably risk-based (eg in relation to priority sectors identified by the FRRP or priority areas for inspection identified by the AIU).
- Proposals which do not impose regulatory requirements. We will not produce an impact assessment.

FRC project owners will apply appropriate judgement in each case to ensure that the necessary elements are included in the impact assessment.

Annex B – Illustrative estimates of the costs associated with the preparation of statutory accounts and audit

In section two of this paper, we explain that we have focused on the costs associated with compliance with those aspects of the regulatory regime for corporate reporting and governance for which the FRC is responsible rather than our internal costs. This annex sets out the assumptions we have made in considering the broad costs associated with the preparation of statutory accounts and audit.

Our illustrative broad estimate of the costs associated with the preparation and audit of statutory accounts, summarised in the tables opposite, suggests that the overall costs are substantial – in the order of £2bn for accounts preparation (Table 1) and a further £2bn for audit (Table 2). These are our own estimates and the broad assumptions we have made are stated in the table. In relation to accounts preparation, the costs are an estimate of the additional costs related to converting management accounts into statutory reports that comply with applicable law and accounting standards. This is obviously a simplification as the accounting policies used for the preparation of management accounts will often be impacted by accounting standards. These costs do not entirely derive from FRC regulatory requirements and there is no automatic link between changes to the scope of the regulatory requirements we impose and potential savings for the regulated community.

The Government has put in place an Administrative Burdens Reductions Project, the aim of which is to estimate the administrative costs incurred by the private sector (defined as including all businesses, charities and voluntary organisations) as a result of all regulations imposed by central government. PricewaterhouseCoopers (PwC) was commissioned to prepare cost estimates. PwC's report to the then DTI (now BERR) noted that complying with the Companies Act 1985 was the most costly regulation in relation to its responsibilities. The PwC report noted that the high estimated cost results from the existence of nearly 2 million companies in the UK to which the requirements apply and that around half of the regulatory costs originate from international legislation that does not allow for domestic discretion.

The PwC report distinguished between administrative costs and administrative burdens. It noted that, with regard to accounting and company law requirements: "A significant proportion of respondents displayed a general acceptance of the regulations and viewed them as providing useful information, which imposed little burden on them".

BERR identified some 15 per cent of company law costs (£962 million) as administrative burdens and has an overall target of reducing administrative burdens by 25 per cent. The Departmental Simplification Plan refers to the implementation of the Companies Act 2006 as leading to significant savings (estimated between £165 million and £340 million), but does not classify as an administrative burden any area of direct relevance to the FRC's remit.

Table 1 – Statutory accounts preparation

Size of entity	Number	Assumptions about average cost £	Cost £m
FTSE 100	100	500,000 (10,000 hours @£50 an hour)	50
FTSE 250	250	50,000 (1,000 hours @ £50 an hour)	13
Other main market	2,000	25,000 (500 hours @ £50 an hour)	50
AIM	2,000	25,000 (500 hours @ £50 an hour)	50
Large private	12,500	10,000 (200 hours @ £50 an hour)	125
Mid-sized	25,000	5,000 (100 hours @ £50 an hour)	125
Below statutory audit threshold	1,300,000	1,000 (often paid to firm of accountants)	1,300
Large charities	10,000	10,000 (200 hours @ £50 an hour)	100
Small charities	150,000	1,000 (often paid to firm of accountants)	150
Pension schemes	100,000	1,000 (often paid to firm of accountants)	100
Estimated total cost of accounts preparation			2,063

Table 2 - Audit

Size of entity	Number of entities	Assumptions about average cost £	Cost £m
FTSE 100	100	4m (October 2007 Finance Director analysis of actual fees shows total cost of £4,024m)	400
FTSE 250	250	600,000 (October 2007 Finance Director analysis of fees for 207 companies -average total cost of £603,000)	150
Other main market	2,000	150,000	300
AIM	2,000	50,000	100
Large private	12,500	50,000	625
Mid-sized	25,000	10,000	250
Below statutory audit threshold	1,300,000	500 (Only around 120,000 of these companies have an audit. In these cases, auditors are usually involved in preparing the financial statements, and the additional cost of audit (around £500) is, therefore, small.	60
Large charities	10,000	30,000	300
Small charities	150,000	Exempt from audit (cost of independent examinations excluded)	-
Pension schemes	100,000	1,000	100
Less – cost of overseas audits of larger listed companies		Assume 30% of cost of FTSE 100 and 250 audits	(165)
Estimated total cost of UK audit			2,120

Annex C – Abbreviations

AADB	Accountancy and Actuarial Discipline Board (formerly AIDB)
AIU	Audit Inspection Unit
APB	Auditing Practices Board
ASB	Accounting Standards Board
BAS	Board for Actuarial Standards
BERR	Department for Business, Enterprise and Regulatory Reform (formerly DTI)
CASE	ASB Committee on Accounting for Smaller Entities
CGU	Corporate Governance Unit
FRC	Financial Reporting Council
FRRP	Financial Reporting Review Panel
FRS	Financial Reporting Standard
FRSSE	Financial Reporting Standard for Smaller Entities
FSA	Financial Services Authority
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
ISA	International Standard on Auditing
POB	Professional Oversight Board
SIR	Statement of Investment Circular Reporting Standard
SMEs	Small and Medium sized Enterprises
SORPs	Statement of Recommended Practice
SSAP	Statement of Standard Accounting Practice
UK GAAP	UK Generally Accepted Accounting Practice
UKLA	UK Listing Authority

Annex D – Contact details

Questions about this document and responses to our consultation questions should be sent to:

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