

FINANCIAL REPORTING COUNCIL

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Chartered Accountants' Hall  
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London EC2P 2BJ

October 2003

**THE NEW FRC: IMPLEMENTING POBA'S RECOMMENDATIONS**

I am writing to set out the basis on which the work of the Professional Oversight Board for Accountancy (POBA) will proceed.

As you know one of the major changes for the new regulatory system under the Financial Reporting Council is the creation of the Professional Oversight Board for Accountancy (POBA) and the demise of the Review Board.

The Review Board's (and the other Foundation bodies') authority in relation to the CCAB depended on the Participation Agreements. These provided that the accountancy bodies accepted the Board's right to carry out investigations in regulatory areas and agreed to implement its recommendations, or explain the reasons for not doing so.

In audit areas, the Government intends to bring forward legislation which will delegate to POBA statutory powers in respect of auditing. The FRC and the POBA are proceeding with the implementation of the POBA on the basis that the CCAB will accept its authority on non-audit matters on a basis similar to that covered by the statutory powers. It was the Government's clear intention to strengthen the independent oversight of auditing and accountancy. The prospective legislation will achieve that in relation to audit. In relation to accountancy matters which are the responsibility of the CCAB bodies, we are in effect simply assuming that the POBA will have at least the same degree of authority as did the Review Board.

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It is essential that both we and the CCAB should be clear about the basis on which POBA will operate. Once POBA is up and running, this will be operationally important as a practical matter. It is also important for the FRC's ability effectively to meet their responsibilities for independent regulation and to deliver the objectives which the Government the business community and the public at large are looking to them to do.

I am copying this to Jacqui Smith and to Sir John Bourn.

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## **The Consultative Committee of Accountancy Bodies**

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7 November 2003

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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 Bryan

### **THE NEW FRC: IMPLEMENTING POBA'S RECOMMENDATIONS**

Thank you for your letter of 20 October 2003, about which we have spoken.

You may also recall the observation I made at the FRC Board meeting on 23 July that the primary regulatory role for the profession – under individual Charter powers and through the delegation of statutory powers – was undertaken by the CCAB bodies themselves.

It is useful to have this opportunity to clarify our thinking. We agree that it is essential to be clear about the basis on which the POBA will operate, and hope that you will find this response constructive.

The CCAB Bodies do, of course, agree that the POBA should have the same degree of authority over non-audit accountancy matters as the Review Board has had and I understood from our conversation, and my conversation with John Bourn, that we are all in agreement on this. We committed to certain obligations with the Review Board, and we are prepared to do the same with the POBA. However, your letter seems to suggest something that goes beyond the existing voluntary arrangements for oversight of the professional bodies' non-audit regulatory activities.

Our clear understanding is that the POBA's authority on non-audit matters will not be on a similar basis to that covered by the statutory powers in relation to audit. All the CCAB Bodies accept obligations in relation to accounting standards and auditing practices. However our commitments on any other matters are:

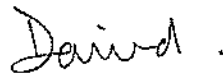
- to consider carefully Review Board recommendations
- to implement them within a reasonable period, or
- to give reasons in writing for not doing so.

We do not anticipate many circumstances under which the CCAB Bodies would not adopt POBA recommendations. However, each CCAB Body is an independent professional body and it will take its own view, taking account of the very different basis on which the POBA has authority for non-audit accountancy matters.

I believe it is important not to undermine the regulatory authority of the professional accountancy bodies in the UK, which are seen by many as world leaders, if we are to avoid weakening the UK accountancy profession as a whole in the longer term.

I am copying this letter to the recipients of yours – Jacqui Smith and Sir John Bourn.

Yours sincerely



D J Illingworth  
Chairman, CCAB

cc CCAB Chief Executives  
Ann Wilks