Dear Sir,

Introductory comments

Chartered Accountants Ireland (‘the Institute’) is pleased to respond to the FRC Consultation ‘Draft Plan & Budget and Levy Proposals 2016/17 (‘the Consultation’).

The Institute recognises that this is a critical time in terms of the future regulation of the accounting profession, and in particular statutory audit, as EU Member States finalise transposition of the EU Audit Regulation & Directive (‘the ARD’).

We are supportive of the FRC’s assertion in the document that ‘Audit underpins public confidence in corporate governance and reporting by ...companies’. The document also acknowledges recent measures introduced by the FRC which have enhanced confidence in the quality of audit and increased the value of auditor reporting to investors. The responses to recent changes to regulatory and reporting environment for statutory auditors demonstrate clearly that effective and rigorous regulation of audit is of significant benefit to investors and wider stakeholders. Transposition of the ARD will provide further statutory underpinning of the regulatory regime for statutory audit in the UK, a regime which we consider already contains many of the elements and requirements of the ARD.

While there may be a need for some additional funding needs to enable the FRC to discharge its obligations under the ARD requirements we are somewhat surprised and disappointed at the quantum of such additional funding estimated by the FRC (£1.5m per year for 3 years) and that the FRC is seeking to obtain this exclusively from what it refers to as the ‘auditing profession’ but in reality from the Recognised Supervisory Bodies (‘RSBs’). The Consultation fails to justify such an increase nor, given it agrees with the benefits of audit regulation to wider stakeholders, why the profession should be the sole providers of this additional funding. The FRC approach fails to take account of the tight financial circumstances which continue to be endured by the professional bodies and their members, in particular those in practice for whom the spiralling costs of regulation will likely threaten the sustainability of their own businesses and impact adversely on the professional bodies. Firms and the RSBs themselves have continued to operate within tight financial constraints as a consequence of the global recession. Neither firms nor the RSBs have had the luxury
of being able to simply hike up fees or subscriptions but rather have responded to pressures to control costs and retain regulatory fees at best stable. The ability of RSBs to sustain and recharge any significant increases in regulatory costs is limited in the extreme.

We would encourage the FRC to use the transposition of the ARD as an opportunity to reassess from the bottom up its range of activities and its consequent funding needs. The FRC should be bold in this regard and should assess in particular whether such activities as the setting of national standards for auditors is really needed in an environment where there is now global acceptance of the high quality international equivalents.

Comments on specific questions

1. Do you have any comments on the regulatory approach we are proposing for our new 3 year strategy?

We are supportive of the general principle espoused in the document regarding developments and improvements in the FRC’s approach in areas such as audit monitoring. However the document is light on the specifics, and therefore the incremental costs, of such change. The FRC should quantify this.

In some respects, the Consultation proposals seem somewhat at odds with the FRC’s own stated aim of regulating in a manner that is effective and proportionate (with which we agree) and with the unambiguous statements from the UK Government which focus on reducing costs and burdens on business and confirm that there should be no gold plating by the UK in its transposition of the ARC. Instead, the FRC appears to be using the ARD as a vehicle to seek to add further regulatory requirements on professional bodies and to add additional cost.

The Consultation paper fails to justify the additional resource the FRC contends will be required to exercise its role as Competent Authority under the ARD requirements. It would appear to us that many of the requirements of the ARD relate to oversight functions already exercised by the FRC in respect of the RSBs. Again, in this regard, the FRC should provide more detail of additional resource needs.

2. Are there areas of our work where we could reduce the regulatory costs we impose without compromising the quality of reporting and corporate governance in the UK?

We have identified above one area where the FRC might critically assess its activity in standard setting. In the current Consultation proposals, not increasing regulatory costs is also as relevant. In this regard, the suggestion on page 17 of the Consultation that the FRC will seek to ‘review on a non-statutory basis some aspects of the bodies’ regulation of their members in practice’ is unwarranted and a potential distortion of competition given the FRC’s reluctance to support statutory regulation of accountancy services generally or use of the descriptor ‘accountant’.
3. Do you have any comments on the FRC’s proposed projects and activities in 2016/17?

We are supportive of the FRC’s intention to review the consequences of the ARD transposition for its ‘non-statutory oversight’ of the accountancy profession, including the Accountancy Disciplinary Scheme. This is a specific area where significant cost savings for the profession might readily be identified.

4. Comments on proposed indicators

We have no comments.

5. Do you have any comments on our proposed budget for 2016/17?

6. Do you have any comments on our proposed funding requirement for 2016/17?

We believe our comments above articulate clearly that we cannot support the proposed budget and funding proposals set out in the Consultation.

We have found the financial commentary and budgeting requirements set out in the Consultation lacking in transparency and in the necessary detail to allow an informed consideration of the funding proposals. We would encourage the FRC to reconsider its approach and to represent a more detailed analysis of its funding needs including:

- additional staffing needs;
- specific additional activities on which the funding will be spent; and
- financial projections for the next 3 years.

While we do not deny that there may indeed be some incremental costs associated with the FRC’s new responsibility under the ARD, the case for this has yet to be made. However we do not believe the quantum of the increase being sought from the RSBs is warranted nor do we consider it appropriate that the incremental costs should be borne solely by them. Indeed, there is nothing within the ARD that suggests that the funding requirements of the Competent Authority should be funded in this manner.

The FRC’s proposals do not reflect the constraints under which the RSBs have operated for the last number of years, nor indeed, the continuing reduction audit registrations, resulting in any funding increases having to be borne by fewer firms.

We look forward to seeing the feedback to this consultation and to engaging further with the FRC on this matter.

Yours faithfully,

Pat Costello
Chief Executive