

Response to the Review of the Regulatory Regime of the Accountancy Profession: Legislative Proposals

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1 INTRODUCTION

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) is pleased to respond to the Department of Trade and Industry's invitation to comment on the legislative proposals coming out of the review of the regulatory regime of the accountancy profession. CIPFA is not a recognised supervisory body (RSB) and is not therefore directly affected by many of the legislative proposals. However, CIPFA is well advanced in its application to the Department of Trade and Industry for Recognised Qualifying Body (RQB) status and therefore has an interest in the development of the new regulatory regime.

1.2 CIPFA recognises and understands the need for the regulatory emphasis in the current climate to be on the external audit of listed companies and other major public interest entities. However, it is important that the regulatory regime retains a wider view which recognises that 'the public interest' is served by the activities of accountants across the profession, not only by those in public practice auditing major public interest entities.

2 SPECIFIC ISSUES ARISING

Statutory backing for auditing standards

2.1 CIPFA recognises that the European Commission's views on issues surrounding the adoption of International Standards on Auditing will need to inform any future decision by the government on statutory backing for auditing standards. CIPFA's view is that there is some merit in the statutory route since this would regularise the 'status' of auditing standards with that of accounting standards. It would also send out a strong signal that the UK takes seriously the task of improving regulation.

2.2 However, whether it would make any perceivable difference to the seriousness that auditors and inspectors already attach to auditing standards is debatable. CIPFA understands that the current systems of audit inspection already review auditors' compliance with Auditing Practices Board (APB) standards and other guidance and that the results of adverse inspection reports can in serious circumstances lead to audit firms' licences being revoked.

2.3 The consultation paper states that the over-riding objective should be to retain a legislative 'light touch', refraining from making primary legislation where another route would achieve the intended outcome. On this basis there may be merit in not pursuing the legislative route, but to make recognised supervisory bodies responsible for requiring registered auditors to follow specified standards

2.4 CIPFA also understands that all CCAB bodies include adherence to recognised auditing standards in their professional practice requirements for members. So for example, while not yet a RQB, CIPFA's *Standard of Professional Practice on Auditing* (which is enforceable under CIPFA's professional disciplinary scheme) states that:

'CIPFA members working as external auditors in the UK are expected to comply with the standards set by the APB. For auditors working in the public sector, the APB's Practice Note 10 (revised) - *The audit of financial statements for public sector entities in the UK* - is a particularly relevant source of guidance'.

RSB responsibilities

2.5 As CIPFA is not an RSB we are not in a position to assess the practical implications of the proposals for RSBs. However, in principle it appears logical to expect RSBs to participate in independent disciplinary arrangements for auditors. Likewise it seems right that RSBs should ensure that firms and individuals involved in the audit of listed companies and other major public interest entities are subject to independent inspection.

Powers to compel witnesses

2.6 The consultation document asks for views on the issue raised by ICAS on powers for the IDB and the professional bodies to ask a court to compel witnesses or require the production of documents. CIPFA's view is that this would be a potentially useful reserve power for the professional bodies but not one that CIPFA would necessarily use routinely, since court proceedings would undoubtedly be expensive and time consuming.

Definition of 'major public interest entities'

2.7 On the question of definition of 'major public interest entities' for the purpose of defining the remit of the independent audit inspection unit, CIPFA notes that the proposed definition would include listed companies, major pension funds and charities, and possibly mutuals. If the definition is included in legislation, then care needs to be taken to clarify whether it is the intention to exclude all public sector bodies (in particular those that are subject to separate statutory audit arrangements).

2.8 It should be noted that some organisations that might be considered to be 'public sector' organisations (and therefore outside the proposed definition) such as universities and registered social landlords are in fact subject to audit under the Companies Act. Therefore any definition of a 'major public interest entity' would need to be carefully drawn if it is to achieve the desired purpose.

Statutory provisions for funding

2.9 CIPFA notes the proposal to extend the power for government to make grants to contribute to implementation costs of the new structure and in respect of the continuing delivery of functions relating to audit. However, this would not extend to that part of the

Professional Oversight Board (POB) role which covers accountants who are not auditors of listed or major public interest entities.

2.10 CIPFA is concerned that this moves away from the principle established in the original report that costs relating to the new regime should be borne jointly by government, business and the profession. It is CIPFA's view that this sharing of the costs should extend to all components of the new regime. CIPFA also considers that the implementation costs of the new regime should be met in full by government.

2.11 CIPFA also notes the assumption made in paragraph 4.34 of the report that the costs of the POB in respect of review of arrangements for accountants who are not auditors of listed or public interest entities are expected to be a relatively minor component of overall FRC costs. CIPFA is concerned that this implies that the role of the POB in this respect will be relatively minor, risking the marginalisation of accountants who are not auditors (the majority of UK accountants) including most CIPFA members. In this respect, given that the majority of listed company audits are carried out by a limited number of audit firms, there is potential for the work of the POB to be focussed on a very small segment of the overall UK profession in terms of firms and individual accountants.

2.12 CIPFA has traditionally had a strong voice in accounting and auditing developments, drawing on the particular nature of the public sector to bring innovations to the wider profession. CIPFA would wish to continue to contribute to the development of the profession in this manner and is concerned that the proposals as worded may adversely affect this possibility.

Appointments process to the 'new' FRC

2.13 While not part of the consultation document, CIPFA would like to express the hope that the appointments process for the 'new' FRC will follow the 'Nolan' principles for public appointments, as practised by the Accountancy Foundation.