OFFICIAL GREEN LIGHT TO REVIEW OF ACCOUNTANCY REGULATIONS

Following Enron, and as part of a series of reviews, the DTI commissioned a review of accountancy regulation. The Review of the Regulatory Regime of the Accountancy Profession – published by the DTI at the same time as the Coordinating Group on Audit and Accounting Issues' final report – has been fully accepted by Secretary of State Patricia Hewitt.

The regulatory review aimed to strengthen and simplify the UK framework against the background of changing national and international expectations. Its main purpose was to look at the way that accountancy and audit professions are regulated, and to suggest improvements to make the systems more effective. The review came up with 10 key recommendations, all of which have been accepted by the government.

1. New independent regulator
The Financial Reporting Council (FRC) should take on the functions of the Accountancy Foundation, creating a new body, 'the independent regulator'. This option was widely supported in response to the consultation. The review committee said the move would result in a simpler regulatory structure and would maximise co-ordination of related regulatory functions, in particular between accounting and audit standards.

2. Accountability/transparency
The independent regulator will have clear arrangements for accountability and transparency, and should be outward-facing in its role. A unified, independent UK regulator will have three clear and related areas of responsibility:

- The setting of standards for accountants and auditors.
- The enforcement or monitoring of those standards.
- The oversight of the regulatory activities of the major professional accountancy bodies.

3. Auditing standards
The Auditing Practices Board (APB) will take over the professional bodies' responsibility for setting standards for independence, objectivity and integrity for auditors. Responsibility for setting all other ethical standards will remain with the professional bodies and should be overseen by an appropriate board within the independent regulator.

4. Audit inspection unit
A new audit inspection unit will report to a board within the independent regulator. It will take over from the professional bodies responsibility for monitoring the audit of those entities "whose activities have the greatest potential to impact on financial and economic stability"– specifically, listed companies and major charities and pensions funds. It would report to the successor to the Review Board, which is likely to be called the Professional Oversight Board (POB).

5. POB
The POB should retain its wider accountancy remit within a reformed structure, but its primary focus should be oversight of audit, and this should be enshrined in the body's key objectives. The POB will focus primarily on audit, in particular, through responsibility for a new inspection unit but also, for example, in relation to auditor competence.

6. POB recognition role
The Secretary of State for Trade and Industry should delegate her recognition role to the independent regulator and this role should be assumed by the POB. The Secretary of State recognises professional supervisory bodies and qualifications for the purposes of the framework set out in the Companies Act 1989 for the supervision of the statutory auditor. The report says that moving it to the POB would result in more effective oversight. New statutory authority would be required.

7. Investigation and discipline
The long-planned Investigation and Discipline Board (IDB) should be brought into being "without further delay to provide, as intended, a demonstrably independent forum for hearing significant public interest disciplinary cases". The IDB would be a subsidiary of the independent regulator and should be able to impose appropriate sanctions, including removing the eligibility to perform an audit from both firms and individuals. Such a move would strengthen the role of the IDB.

8. Sharing of costs
The annual running costs of the independent regulator should be broadly shared by government, business and the professional bodies, with the exception of the costs of cases coming before the Investigation and Discipline Board, which would continue to be borne by the professional bodies (as the draft arrangements currently envisage), and the costs of an independent audit inspection unit, which should be borne by audit firms.

9. Proactive enforcement
There will be a risk-based, proactive element to enforcement of accounting standards within company accounts. The Financial Services Authority (FSA) is to have a greater role in the enforcement process; in particular, in identifying the risks to be investigated and the selection of company accounts for examination. The Financial Reporting Review Panel (FRRP) will continue to take the lead on investigations and enforcement, but the FRRP and the FSA are expected to develop and agree a memorandum of understanding to clarify their respective roles and responsibilities in this process

10. Information
The government is to explore the scope for opening a legal gateway to allow information to be passed between the Inland Revenue and FSA/FRRP/DTI so that data held by the Revenue can be used to help identify high-risk accounts and inform the FRRP's work. A DTI implementation steering group has been formed to see through the changes, including whether certain parts of the independent regulator should be put on a statutory basis.

Peter Williams.

A wide range of Briefings can be found at www.financialdirector.co.uk/briefing

Useful links

- **The steering group has published a consultation document containing legislative proposals addressing the specific issue of the DTI's proposals for statutory provisions to support the new regulatory functions of the FRC. See dti.gov.uk/consultations and look in current consultations.**