

# Funding the Audit, Reporting and Governance Authority

A consultation issued for public consultation by the Financial Reporting Council (FRC)

Comments from ACCA

21 October 2022

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## GENERAL COMMENTS

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ACCA welcomes the opportunity to comment on the FRC's proposals for funding the Audit, Reporting and Governance Authority (**ARGA**).

We would like to reiterate again our support for the FRC's efforts to transition itself into ARGA to better serve the public interest. As outlined in our responses to previous consultations, ACCA is very supportive of measures which strengthen trust and public confidence in the audit and corporate reporting regulatory framework which brings benefits to society and the UK economy more generally. Similarly, we also recognise the reputational benefits that ACCA and its members enjoy from a regulatory framework that achieves robust oversight based on a proportionate, fit-for-purpose governance regime.

We are generally supportive of the high-level principles on which ARGA's funding model should be based and will respond on subsequent consultations when further detail is provided. The creation of a funding model underpinned by statute and based on the core principles of fairness, transparency and proportionality is key to ensuring ARGA can operate on a sustainable and independent basis. However, we have identified some areas of concern and points for clarification, and these are highlighted in our responses to the questions raised where appropriate.

The public perception of funding models for competent authorities is an important consideration and while there needs to be flexibility in the funding arrangements to accommodate change, it is important that the funding requirements are understood and transparent. The proposed funding model aligns with Government proposals for the UK's corporate reporting and audit regime and the methodology and structure appears to be predicated on the model adopted by the Financial Conduct Authority (**FCA**). In our opinion, it would be advisable to consider the funding models of other competent authorities and regulators, in particular those which take account of the wider public interest through an element of central government funding. For example, under the funding model of the Irish Auditing and Accounting Supervisory Authority (**IAASA**) there is a contribution from Government due to the wider public interest in standards and guidance.

We would also urge the FRC to reconsider the proposal to pass financial sanctions collected by ARGA through its enforcement regimes to Government. We believe such financial sanctions should be applied to funding of the ARGA's future activities and public education in order to support the regulator's ongoing sustainability and guard against disproportionate burdens on funders. This is a settled regulatory principle.

We agree it is important to provide a clear line of sight between ARGAs objectives, its annual plan and budget and the amounts levied from each funding group. However, the consultation does not sufficiently address accountability and effectiveness for ARGAs delivery of its strategic objectives and work programme. Whilst we note that ARGAs will report on the delivery of its regulatory objectives in its annual report, we would have expected more clarity on accountability at this stage.

There are a number of persons and bodies to which ARGAs activities directly relate or which otherwise benefit from those activities and determining how they should contribute will be crucial to ensuring populations are segmented in a way that is fair and avoids duplication. We are encouraged by the FRCs proposal to implement a funding model which charges the right market participants in a proportionate manner, as this aligns with the 'polluter pays' principle. We particularly welcome the proposal not to levy micro-entities as smaller businesses should not subsidise the regulation of public interest entities (**PIEs**), and also the inclusion of the investor community in the funding arrangements for ARGAs work on investor stewardship. Nonetheless, we have some initial concerns about the proposals for funding some activity blocks, in particular audit regulation, and the basis for calculating contributions. In our responses below, we outline our preferred options for ARGAs charging policy to ensure proportionality and avoid any adverse impacts on growth and competition.

ACCA looks forward to engaging constructively with the FRC on the more detailed aspects of the proposed funding arrangements, including the indicative levy amounts that are likely to be applied to proposed funding groups.

## AREAS FOR SPECIFIC COMMENT

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### **Question 1: Do you have any comments on the proposed guiding principles for ARGAs overall funding arrangements?**

We are supportive of the proposed guiding principles for ARGAs overall funding arrangements for its operations in pursuit of all its objectives. However, we recognise that the final funding arrangements will depend on the legislation Government puts in place and will be subject to future consultation and therefore the application of the principles cannot yet be ascertained.



As outlined in our response to the BEIS consultation<sup>1</sup>, ACCA agrees with the proposal that the new regulator should be funded by a statutory levy and that the cost of its regulatory activities, enforcement regimes, and other initiatives should be met by market participants and other beneficiaries.

We also agree that the funding model for the new regulator needs to be sustainable and independent to enable it to undertake its activities in an effective manner and that the funding model should be fair, transparent and proportionate, adhering to the Managing Public Money principles. It is vitally important that stakeholders have clear insight to make a meaningful assessment as to how the regulator's resources will be applied so that stakeholders are able to understand the rationale for the regulator's activities, which they fund.

However, we do not support the FRC's proposal that financial sanctions collected by the regulator through ARGAs enforcement regimes should pass to Government. We remain of the view that such financial sanctions should be retained and applied to funding of the ARGAs future activities and public education on audit activities in order to support the regulator's ongoing sustainability and guard against disproportionate burdens on funders. This is a settled regulatory principle. Indeed, FRC's expectation is that ACCA (and the other Recognised Supervisory Bodies) should ring-fence fines collected and apply these to our enforcement activities only and not any of our other activities. We believe FRC (and in the future ARGAs) should meet that same expectation.

## **Question 2: Do you have any comments on the proposals for setting ARGAs annual funding requirement?**

We believe it is important to provide a clear line of sight between ARGAs objectives, its annual plan and budget and the amounts levied from each funding group. It is critical, therefore, that ARGAs develops an annual plan that not only sets out areas of spend but also includes detail on why the spend is necessary (ie what risk is the activity aiming to mitigate) and what value it will deliver. The provision of a detailed and transparent annual plan will provide market participants with the broad insight to make a meaningful assessment as to how the new regulator's resources will be applied, ensuring they can fully understand the rationale for expenditure and any systemic risk that ARGAs is seeking to address. This in turn will make it easier to explain the rationale for its activities to ACCA practitioners and members more generally, which they fund.

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<sup>1</sup> [ACCA's response to the BEIS consultation – Restoring trust in Audit and Corporate Governance](#)

However, we believe it is equally important to set out how ARGA will demonstrate accountability for its strategic objectives and work programme. Unfortunately, the consultation does not sufficiently address accountability and, although we note that ARGA will report on the delivery of its regulatory objectives in its annual report, we would have expected more clarity on accountability at this stage.

### **Question 3: Do you have any comments on the proposed approach to setting ARGA's annual levies?**

The public perception of funding models for competent authorities is an important consideration and there needs to be flexibility in the funding arrangements to accommodate change. The proposed funding model aligns with Government proposals for the UK's corporate reporting and audit regime and the methodology and structure appears to be predicated on the model adopted by the FCA.

In our opinion, it would be advisable to consider the funding models of other competent authorities and regulators, in particular those which take account of the wider public interest through an element of central government funding. For example, under the funding model of the Irish Auditing and Accounting Supervisory Authority (**IAASA**) there is a contribution from Government due to the wider public interest in standards and guidance.

We are encouraged by the FRC's proposal to implement a funding model which charges the right market participants in a proportionate manner. There are a number of persons and bodies to which ARGA's activities directly relate or which otherwise benefit from those activities and determining how they should contribute will be crucial to ensuring populations are segmented in a way that is fair and avoids duplication. In particular, the funding arrangements should adhere to the 'polluter pays' principle and ensure that the burden of funding does not fall disproportionately on smaller audit firms<sup>2</sup> and the small and medium entities (**SMEs**) (ie non-public interest entities) they serve. We believe that smaller audit firms and smaller corporate entities should not subsidise the regulation of larger audit firms and PIEs and therefore support the proposal not to levy micro-entities. We are also pleased to see the inclusion of the investor community in the funding arrangements for ARGA's work on investor stewardship.

ACCA welcomes the transparency in setting ARGA's annual levies and the opportunity to provide feedback on the proposed levy rates. We note that the ARGA Funding Rule Book will

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<sup>2</sup> For ACCA, the UK audit practitioner population (approximately 1,600 firms) typically comprises one or two partner firms, which predominantly service SMEs.

set out the basis on which levies are calculated and specify all matters of detail. We therefore look forward to reviewing the Rule Book in due course and providing feedback on these specific areas. However, we have some initial concerns about the proposals for funding some activity blocks, in particular audit regulation, and the basis for calculating contributions. In our responses to Questions 4, 5 and 6 and below, we outline our preferred options for ARGAs's charging policy to ensure proportionality and avoid any adverse impacts on growth and competition.

**Question 4: Do you have any comments on the proposed approach to setting ARGAs's annual levies for its responsibilities in relation to audit?**

ACCA is supportive of funding arrangements that are transparent, fair and proportionate to the size of each regulated population, and the degree to which the activities directly relate to or benefit that population. We are broadly supportive of the proposed approach to setting ARGAs's annual levies for its responsibilities in relation to audit. However, we have some areas of concern and points for clarification and these are highlighted in our response below.

ARGAs's new powers to monitor the audit market and audit firms will inevitably give rise to significant changes in the funding arrangements for audit regulation, in particular for professional bodies and the major audit firms. We agree that the current role of the Consultative Committee of Accountancy Bodies (**CCAB**) in providing funding for audit regulation should come to an end under the new funding arrangements for ARGAs. We therefore support the proposal for ARGAs to levy auditors of PIEs and professional bodies directly for certain audit regulation functions.

We appreciate that the method for applying the audit funding levies to the professional bodies is subject to further consideration and the professional bodies (including CCAB and other bodies) will have the opportunity to reflect on the most appropriate basis for applying the levies in a future consultation. Nevertheless, we would like to share our initial thoughts about the proposed funding arrangements and the basis for apportionment.

We believe that the annual contribution from professional bodies should be based on the 'size of membership' in the UK undertaking statutory audit work and should be defined in relation to the scope and nature of ARGAs's regulatory activities for the type of audit activity block. In our opinion, the current approach based on the number of responsible individuals would ensure proportionality and avoid any adverse impacts on growth and competition amongst professional bodies.



We agree that ARGA should levy each professional body separately for the professional oversight of its activities as a recognised qualifying body (**RQB**) and a recognised supervisory body (**RSB**). We suggest that the costs of professional oversight activities are apportioned based on the number of statutory auditors and statutory audit firms in the UK.

We also agree that it is fair and proportionate for the major audit firms subject to supervision to contribute funding for certain audit regulation functions and we support the proposal to calculate the levy on the basis of each firm's overall fees from audits of PIEs in the previous year.

The proposed audit activity blocks reflect the wider responsibilities and powers that will fall under ARGA's remit for audit regulation. We note that the proposed funding groups fall into more than one category and therefore it will be vitally important that the costs for audit regulation are allocated fairly, transparently and proportionately to each relevant funding group. While ACCA supports the 'polluter pays' principle, we are concerned that the new funding arrangements could result in duplication and a significant increase in regulatory fees for some (or all) funding groups.

Finally, we have identified some apparent discrepancies between the proposed funding groups listed in the Table and those referred to in the supporting text of the consultation document. For example, in respect of A3 Auditing Standards, the Table states that 50% of the funding will be met by the RSBs, whereas the text indicates that RQBs will also be required to contribute. Also, in respect of A7 Third Country Auditor Regulation, the Table lists RSBs but the text refers to professional bodies. We would welcome clarification of the funding groups for these activity blocks, as RQBs, RSBs and professional bodies are distinct funding groups and not interchangeable terms.

#### **Question 5: Do you have any comments on our proposals for funding ARGA's responsibilities in relation to accountants and their professional bodies?**

We welcome the introduction of a new statutory regime for the oversight of accountancy covering all professional bodies whose members hold professional-level accountancy qualifications. We note the proposal to fund the oversight and enforcement regime by the accountancy profession. However, the relevant professional bodies that will fall within the scope of these annual levies are not yet specified and may depend on the legislation Government puts in place.

We suggest that the calculation of the annual levies should be based on the number of practising members, excluding those that fall within the separate funding activity blocks for



statutory audit. We believe that this would be the fairest method of determining the importance of ARGAs regulation for each professional body within scope of the new statutory regime.

**Question 6: Do you have any comments on the proposed approach to setting ARGAs annual levies for its responsibilities in relation to corporate reporting?**

ACCA is equally supportive of measures which strengthen trust and public confidence in the corporate reporting regulatory framework which brings benefits to society and the UK economy more generally. Similarly, we also recognise the reputation benefits that ACCA and its members enjoy from a regulatory framework that achieves robust oversight based on a proportionate, fit-for-purpose governance regime. We therefore welcome the proposals to require companies and other PIEs in scope to fund ARGAs regulation of corporate reporting through an annual levy. In particular, we welcome the proposal not to seek a contribution from all entities preparing accounts within the requirements of UK company law. Overall, the proposals will ensure that funding for corporate reporting falls proportionally on those who directly benefit and are able to pay.

We believe it would be more proportionate to include an element of variability based on ability to pay. Therefore, in our opinion, the annual levy should be calculated on the basis of turnover in the company's previous years accounts (as at present) rather than using an alternative measure of size, or setting a fixed annual fee. However, given the number of companies involved, there is a risk that this approach would increase cost due to its complexity. It is important that the system used to calculate the annual levy for large private companies and any other entity falling within the PIE definition is simple and easy to administer, so as to minimise the cost risk.

**Question 7: Do you have any comments on the proposed approach to setting ARGAs annual levies for its responsibilities in relation to corporate governance?**

We are supportive of the proposals to fund ARGAs future role in promoting high standards of corporate governance through a levy on listed companies and other companies that fall within the scope of its corporate governance work.

**Question 8: Do you have any comments on the proposed approach to setting ARGAs annual levies for its responsibilities in relation to investor stewardship?**

We are also supportive of the proposals to extend ARGAs funding model to include funding from the investor community. Given ARGAs future role in setting and promoting compliance with the UK Stewardship Code 2020, we believe it is reasonable and fair to seek a specific contribution from the FCA-authorised asset owners and managers, insurance companies and large pension schemes as they are the main beneficiaries of this work.

**Question 9: Do you have any comments on the proposed approach to setting ARGAs annual levies for its responsibilities in relation to public interest actuarial work?**

We have no comments.

**Question 10: Do you have any initial comments on the metrics that should be applied to determine the appropriate share of the costs of actuarial regulation between the proposed funding groups?**

We have no comments.