PROFESSIONAL OVERSIGHT BOARD

REPORT TO THE SECRETARY OF STATE FOR BUSINESS, INNOVATION AND SKILLS

YEAR TO 31 MARCH 2009

Professional Oversight Board

Report to the Secretary of State for Business, Innovation & Skills

Year to 31 March 2009

Presented to Parliament pursuant to sections 1231(3) and 1252(10) of, and paragraph 10(3) of Schedule 13 to, the Companies Act 2006.

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Contents

Chair's Foreword

I am pleased to send you the fifth annual report on the work of the Professional Oversight Board, for the year to 31 March 2009. Our establishment and statutory responsibilities flow from the Government's Review of Audit Regulation in 2003, which followed the major auditing failures in the US, notably at Enron and WorldCom. We provide oversight of the regulation of auditors and independent oversight of the regulation of accountants and actuaries by their respective professional bodies. Through the Audit Inspection Unit, we also monitor the quality of the auditing function in relation to economically significant entities.

I reported last year on a new approach to reporting by the AIU to increase transparency and make more information publicly available on our inspections of major audit firms. For the first time, in December 2008, we published individual reports on seven audit firms, alongside an overview report on the results of the audit quality inspection programme carried out in 2007/08. The AIU also now issues reports on individual audits to the audit firms concerned, with a view to the firms making these available to the Audit Committees of the relevant audit clients.

Our monitoring of major audits in 2008/09 involved reviews of both firm-wide procedures and a sample of individual audits at eight of the nine firms currently subject to such inspections. We paid particular attention to monitoring how the firms have responded to the auditing challenges arising from the financial crisis. Overall, our work in 2008/09 continues to support the view that the quality of auditing in the UK is fundamentally sound and that the firms have generally made good progress in implementing prior year recommendations. The economic downturn has given rise to increased challenges to auditors and we report on the emerging findings from this work in Section Five, though the full results and the public reports on each firm will be published towards the end of this year.

Our assessment of the actions taken by the major audit firms at a firm-wide level since late 2007 to respond to increasing turmoil in financial markets and the onset of the economic downturn is generally positive. However, we have noted variations in the extent to which audit procedures have been enhanced in practice, both between firms and between individual audit teams, though any issues are only likely to emerge from our 2009/10 inspection cycle

We also note that recent reviews and reports on the financial crisis, such as the Report of the Treasury Select Committee (TSC) on the Banking Crisis, are not overtly critical of auditors or the quality of auditing in the UK. That leaves little room for complacency, however. Such reports have also raised questions as to the value of audit, even when it is performed as expected. The TSC Report comments "The fact that the audit process failed to highlight developing problems in the banking sector does cause us to question exactly how useful audit currently is". This expectation gap is not new but both audit firms and regulators need periodically to consider the challenges this presents and whether the value and relevance of audit can be enhanced.

Monitoring the effectiveness of the regulation by recognised bodies of statutory auditors is another core function. We focused this year on specific aspects of audit regulation undertaken by recognised supervisory and qualifying bodies. As regards the supervision of statutory auditors, we focused on the competence of smaller audit firms and sole practitioners, and the processes the bodies use to monitor the competence of audit firms. On audit qualifications, we reviewed the adequacy of the examinations at each recognised body. The recognised bodies take their regulatory responsibilities extremely seriously and much regulatory practice is of a high standard. Nevertheless, some aspects of regulatory activity are a cause for concern. In particular, we have made substantive recommendations to some bodies aimed at strengthening the examinations and the arrangements for the training of auditors. We highlight these in Section Two.

In November 2008 we published the results of a specific project to review the practical training of auditors, raising issues in particular as to how auditors gain and maintain appropriate competence, against a background of higher thresholds for mandatory audit and fewer opportunities for gaining audit experience. The issues emerging from this project are an important feature of our work in 2009/10.

In Europe we worked with the European Commission and other Member States to give practical effect to the requirements of the Statutory Audit Directive, in particular in relation to the registration and regulation of the auditors of companies from outside the EU that issue securities traded on EU capital markets. We explain in Section Four what we have done to put the necessary systems in place in the UK. The common aim in Europe in the medium term is to reach a position of mutual reliance on regulatory systems between the EU and those third countries where there is well developed regulation of auditors with independent oversight.

Our non-statutory oversight of the regulation of the actuarial profession follows the recommendations of the Morris Review in March 2005. Our work continued to gather pace in 2008/9. In May 2008, we initiated a major consultation on the monitoring and scrutiny of actuarial work. We published a feedback statement in January 2009 and our report on the profession's regulation of its members in May 2009 included recommendations for enhancing professional quality assurance arrangements for actuaries and their firms. We also noted the Profession's progress in developing a more principles-based ethical code, the Actuaries' Code, which we now expect to come into force in the autumn. This follows significant involvement by the Oversight Board in the development of the new Code. In particular, we encouraged the Profession to address the threats to actuaries' professionalism and independence that can arise from pressures that can come either from direct clients or, for in-house actuaries, from their employers.

We also worked with other parts of the FRC on key projects relating to our wider responsibilities, in particular to take forward recommendations of the Market Participants' Group on *Choice in the UK Audit Market* and the development of FRC guidance on "Going Concern". We also worked closely with the Board for Actuarial Standards, developing a consultation on actuarial quality in May 2008, which led to the publication of the FRC's Actuarial Quality Framework in January 2009. The aim is to assist all stakeholders, and particularly users of actuarial work, in assessing actuarial quality. In December 2008 we contributed to the FRC's work to highlight the challenges to users of actuarial information in current economic conditions and to publish a list of questions for users to put to their actuaries. We shall keep both publications under review.

Finally, I want to record my thanks to all the members of the Board and to the staff, particularly to the two members of the Board who retired at the end of March after two terms – Tim Barker and Michael Jones - and to my predecessor, Sir John Bourn, whom I succeeded as Chair on 1 October 2008, and who did so much to establish the effectiveness of the Board from its formation.

Dame Barbara Mills DBE QC
Chair, Professional Oversight Board
July 2009

One – Introduction

1.1. This report meets the obligations in paragraph 10(1) of Schedule 13 to the 2006 Act to report each year to the Secretary of State on the way in which the Board has carried out its statutory responsibilities. It also meets the obligation under Section 1231(2) of the 2006 Act in respect of 2009, to report at least once in each calendar year to the Secretary of State on the discharge of the function of Independent Supervisor of Auditors General. Whilst it focuses on the statutory part of our work, it also comments on our other work. Annex 1 sets out our statutory remit in more detail.

1.2. Section Two sets out the way the Board has exercised oversight over those accountancy bodies recognised to qualify statutory auditors in the UK and to supervise UK statutory auditors. It also reports on the Board's other UK statutory functions, for example in relation to transparency reporting by audit firms.

1.3. Section Three reports on the exercise of the function of Independent Supervisor of Auditors General.

1.4. Section Four reports on the Board's international responsibilities, in particular for the regulation of auditors of companies from outside the European Economic Area that have securities admitted to trading on a UK regulated market.

1.5. Section Five presents an interim report on the 2008/09 work of the Audit Inspection Unit in monitoring the auditors and audits of listed and other entities in which there is a major public interest. This includes emerging findings and issues. We will publish the full results of this work including the public reports on individual audit firms towards the end of 2009.

1.6. Section Six reports on our non-statutory oversight of the Accounting and Actuarial Professions.

1.7. Section Seven comments on our Work Programme for 2009/10, which is an integral part of the FRC's overall Plan and Budget.

Two – UK Statutory Regulatory Responsibilities

Introduction

2.1. This section reports on our monitoring of supervisory and qualifying bodies for audit in the UK in 2008/09. Audit firms who wish to be appointed as a company auditor in the UK must be registered with, and subject to supervision by, a recognised supervisory body (RSB). Individuals responsible for audit at registered firms must hold an audit qualification from a recognised qualifying body (RQB).

2.2. The following are both RSBs and RQBs:

- Association of Chartered Certified Accountants (ACCA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants in Ireland (ICAI)
- Institute of Chartered Accountants of Scotland (ICAS)

2.3. In addition:

- Association of Authorised Public Accountants (AAPA) is an RSB
- Association of International Accountants (AIA) is an RQB
- Chartered Institute of Public Finance and Accountancy (CIPFA) is an RQB

2.4. We exercise oversight by:

- Checking that each body still meets all the statutory requirements which are conditions of continued recognition;
- Reviewing and testing the way in which each body's regulatory systems are applied in practice;
- Evaluating periodically the effectiveness of a specific aspect of the regulatory system such as the handling of complaints, the monitoring of audit firms, or the standards of examinations.

2.5. We visited each RSB and RQB in 2008/09. For all the bodies except CIPFA we have updated our documentation of the regulatory systems and have tested their application in practice. CIPFA was recognised as an RQB in July 2005 but has not yet launched a recognised audit qualification.

2.6. The AIA has regulatory systems in place for its RQB qualification. These include the examinations, arrangements for approving training offices and the practical training of students. However, whilst it has trained students for the audit qualification in the past, and has around 300 students in the UK and the Republic of Ireland training for its accountancy qualification, there are no students training at present for the audit qualification. We were not able therefore to test the way in which systems such as student registration and the recording of training records worked in practice in relation to audit.

Results of 2008/09 Monitoring

2.7. For 2008/9 we focused once again on key areas of risk and on significant changes in the systems. We reviewed at each RSB the way in which each body monitors firms and individuals, and addresses issues of audit competence. We took a sample of audit monitoring files and the related Continuing Professional Development returns of firms with six or fewer audit clients.

2.8. At each RQB we reviewed the setting, marking and moderation of examination papers for the audit qualification. Our work included an analysis of the examinations and learning materials to ensure that all of the prescribed subjects included within the Statutory Auditors (Examination) Instrument 2008 were covered and examined sufficiently by the RQBs.

2.9. We identify some of the key recommendations in this report. They do not necessarily apply to all the bodies. Nevertheless, where we consider it is appropriate, we invite all bodies to reflect on the relevance of these findings to their situation. We also send each body a private report outlining more detailed findings and recommendations related directly to our work at that body.

2.10. All the bodies take their regulatory responsibilities extremely seriously. Much of the regulatory practice we have seen is of a high standard. Nevertheless, there are aspects of regulatory activity at some recognised bodies that gives us some concerns. In particular, we have made recommendations aimed at ensuring that the examinations and the arrangements for the training of auditors meet the statutory requirements. More generally much of our work, and our private reports to the bodies, address potential improvements in systems and practices, identify where those systems and practices have not been applied fully, or question whether the way in which the requirements have been interpreted fully meets Companies Act requirements.

2.11. As part of our oversight, all RSBs and RQBs provide an annual regulatory report, which includes statistical information on their regulatory activities during the year. Annex 2 sets out the main elements covered in those reports. We comment on important points arising at paragraphs 2.42 and 2.43 below. This also meets the statutory obligation under Section 1251A of the Companies Act 2006 to provide each year a summary of the results of inspections by RSBs.

Response to prior year recommendations

2.12. During our review visits, we also discussed and examined the bodies' responses to recommendations made in previous reports. We are pleased to note the positive steps that the bodies have taken in response to the recommendations made in previous years. In some cases, it is still too early to see the full effect of changes on regulatory practice. In a small number of cases, where we consider that the response to our recommendations has been inadequate, we have re-emphasised to the relevant body the importance we attach to the recommendation and the thinking behind it. We will continue to monitor progress on these recommendations and where necessary will take action to ensure that our concerns are properly addressed.

Main Points

2.13. We summarise below the main points from our visits this year and the progress in response to previous recommendations, according to the regulatory area to which they relate.

Issues identified at the Recognised Supervisory Bodies (RSBs)

Audit monitoring: Meeting the requirements of the Statutory Audit Directive

2.14. The Statutory Audit Directive (SAD), implemented in the UK through provisions in the Companies Act 2006, introduced a requirement from April 2008 that RSBs should monitor the activities undertaken by audit firms at least once every six years. This replaced the less prescriptive requirement in the Companies Act 1989, which left it to each RSB to determine the frequency of these visits. Annex 2 includes data on the number of firms each RSB visited during the years ended 31 December 2006, 2007 and 2008.

2.15. We welcome the RSBs' commitment to meet the new requirements on audit monitoring. Nevertheless, in our view this could prove challenging for some bodies. In particular, we have stressed that meeting the overall monitoring cycle should not be at the expense of more frequent visits to audit firms that pose the highest risks; and that RSBs should avoid getting a long way behind in achieving the six year cycle, as it can then prove difficult or costly to catch up. We asked all RSBs to provide us with a detailed analysis of how they intend to meet the SAD, and to confirm that they will keep a close watch on the position to ensure that their plans are realistic. We will continue to monitor closely during future compliance visits the RSBs' progress in meeting the inspection cycle.

Audit Monitoring: Visit outcomes

2.16. The RSBs assess the outcome of a monitoring visit in different ways. However, for all the bodies this involves applying a significant degree of judgement. We continue to stress to the monitoring teams at the RSBs the importance of providing adequate documentation and explanations to support the conclusions reached and the grading awarded. We are pleased to report that the evidence to support visit outcomes has improved at most of the bodies, although we continue to identify instances that show that there is room for further improvement.

2.17. Some of the RSBs base the overall grading of their monitoring visits on the findings of the visit and the firm's response to the matters identified during the visit. In other words, the reviewer's assessment of the firm's willingness and ability to make the necessary changes affects the overall grading and thus the imposition of conditions. All RSBs rightly view the monitoring process principally as a way of helping practitioners to improve the overall quality of audit work in the future. To assist practitioners, reviewers provide substantial details and direction as to what improvements are needed. The level and amount of direction provided by reviewers varies from RSB to RSB. Whilst it is important that practitioners understand what changes should be made, we do not consider that it is in general appropriate to give a higher grading than would otherwise be the case where there is a limited positive response from the practitioner or, as is common, the practitioner simply repeats the reviewer's comments. In other words, if an RSB wishes to continue to use this approach, reviewers need to adopt a more sceptical attitude when assessing the quality of the firm's response.

Common areas of weakness identified during audit monitoring visits

2.18. We reviewed 88 monitoring files during our RSB visits in 2008/9, though the sample was skewed towards visits where the outcome was judged as poor. 46 files showed weaknesses in the practitioners' evidence of the audit work they had undertaken. Relevant staff at all of the RSBs confirmed that this is a common issue that arises; particularly in smaller firms. In many cases following discussions with practitioners the reviewers concluded that the work had probably been done but the practitioner had failed to document this.

2.19. Poor documentation reduces the perceived quality of audit work and may weaken confidence in the firm and the profession. We have asked all RSBs to work together to identify the root cause of this and other recurring issues and develop appropriate plans to minimise these and raise the quality of audit work. We would also encourage the RSBs to promote to practitioners the APB's Practice Note 26 (Guidance on Smaller Entity Audit Documentation) in order to improve the standard of audit documentation.

Continuous Professional Development (CPD): Non-compliance with CPD requirements

2.20. There is a requirement on RSBs to ensure that individuals eligible for appointment as statutory auditor continue to maintain an appropriate level of competence in the conduct of statutory audits. This is a vital part of maintaining and improving the quality of audit work. Of the 88 monitoring files we reviewed, 38 raised issues in relation to non-compliance with the relevant body's CPD requirements, though the sample was skewed towards firms with low gradings. The main reasons given for members failing to comply with CPD requirements are:

- Members are undertaking CPD but are failing to reflect on their development needs, or to assess the effect of the CPD undertaken.
- Members are undertaking CPD but it is proving to be ineffective or insufficient, as demonstrated in the outcome of their file reviews.
- Members are undertaking little if any CPD.

2.21. In the light of this requirement and the level of non compliance identified during our annual visits, we have asked the bodies to consider individually, or collectively, ways in which they can ensure that members understand the requirements of their CPD schemes and to raise the awareness of practitioners to ensure they undertake sufficient and relevant CPD. This is particularly important given that most bodies have introduced new CPD schemes recently.

Issues identified at the Recognised Qualifying Bodies (RQBs)

Examinations

2.22. Schedule 11 to the Companies Act 2006 requires that a qualification offered by an RQB must be restricted to persons who:

a) have completed a course of theoretical instruction in the prescribed subjects; and
b) have passed an examination (at least part of which must be in writing) testing i) theoretical knowledge of the prescribed subjects and ii) the ability to apply that knowledge in practice.

2.23. During our RQB visits in 2008/9 we reviewed all of the RQBs' syllabuses, learning materials and examinations to ensure that these adequately covered the prescribed subjects. We reviewed the examinations at the RQBs to ensure that both the theoretical knowledge of the subjects and the ability to apply that theoretical knowledge were assessed adequately.

2.24. Following our review of the coverage and testing of the prescribed subjects we have set out to some RQBs a number of areas where we consider coverage and testing of the prescribed subjects need to be strengthened.

2.25. We identified a number of areas within the prescribed subjects that we do not consider are tested adequately either in terms of theoretical knowledge or the ability to apply theoretical knowledge in practice. We also found examples where we did not consider an examination was sufficiently challenging. This included, but was not restricted to, the final audit examination at some of the bodies. We had particular concerns that in some cases, questions on the final audit paper were related too much to general assurance engagements rather than statutory audit matters. Whilst such tests are entirely appropriate to the work practitioners undertake, our role is to ensure that the examinations for the audit qualification are an adequate test for that specific purpose. In addition, we have made recommendations at one body where we concluded that the arrangements for students to follow a suitable course of theoretical instruction were inadequate.

2.26. The relevant RQBs have agreed to make changes to their syllabus and examinations to meet our concerns. We recognise that changes to syllabuses, learning materials and examinations take time and cannot be fully in place before 2011. We will monitor progress with the relevant bodies and assess the position when the changes are complete. In light of our findings we have asked the RQBs concerned to review their examinations for the recognised professional qualification and to put proposals to us to meet our concerns.

Responses to recommendations made to RSBs in prior years

The Accountancy and Actuarial Discipline Board (AADB) Scheme - Referral of cases to the AADB

2.27. RSBs are required to participate in independent arrangements for the investigation and disciplining of auditors in cases raising significant public interest issues. In practice, the bodies meet this requirement by membership of the Scheme operated by the Accountancy and Actuarial Discipline Board (AADB). In last year's report, we raised concerns relating to the relationship and cooperation between a number of the RSBs and the AADB. The AADB has consulted with the RSBs regarding proposed changes to the scheme, in order to uphold the principles of fairness, transparency and proportionality, all of which are considered key for effective and independent regulation. These are proving difficult to agree. Given that effective independent arrangements is one of the conditions for continuing recognition as an RSB, it is important that the discussions on proposed revisions to the scheme are concluded satisfactorily.

Signing audit reports without appropriate authority

2.28. We reviewed last year a number of complaints received by the RSBs that revealed that audit reports had been signed by individuals who, although members of the body, were not "Responsible Individuals" (RI), and therefore not entitled to sign audit reports on behalf of a firm. Such individuals tended to argue that they were not aware of the need for RI status and that they had thought that it was sufficient to hold a practising certificate. We concluded that part of the reason for this is that the bodies do not in all cases make it sufficiently clear to their members, or do not reinforce the message often enough, that holding a practising certificate does not of itself confer the right to accept audit appointments or to sign an audit report. We therefore recommended that the bodies should review the way in which they communicate with their members on this point. This is important to protect the public and to maintain confidence in statutory audit.

2.29. The relevant RSBs have changed the letter sent on admission to membership to emphasise that neither admission to membership nor holding the audit qualification gives individuals the right to sign an audit report. The letter explains that anyone wishing to sign an audit opinion must have been awarded the audit qualification and hold a practising certificate.

2.30. We also recognised that there is a relatively small number of cases where individuals who are not members of any recognised body nevertheless sign audit reports which are then filed at Companies House as part of the statutory accounts.

2.31. We shall undertake further work with the RSBs to establish the extent to which there is a problem in the UK of audits that are undertaken and signed by ineligible individuals and accountancy firms. We shall then consider what action can and should be taken by whom, to improve the enforcement of requirements on who can sign audit reports.

Referral of firms to the registration committee following a monitoring visit

2.32. We expressed concerns in the past to one RSB that their procedures meant that a firm would not be referred to the registration committee following a first monitoring visit, even where the review highlighted significant shortcomings in the quality of audit work performed. We recommended that, where the overall conclusion is unsatisfactory, the firm should be referred to the registration committee.

2.33. Whilst the body has re-stated its procedures, making clear that a significant failure to carry out audits to a satisfactory standard will lead to a referral to the registration committee, in practice a firm would only be referred where it had made little or no attempt to carry out an audit in compliance with auditing standards. There were no such cases in the year preceding our most recent visit. In order to protect the public, we have underlined the need to alert the committee to all instances of poor quality audit work. We will continue to monitor how this is working in practice.

Responses to recommendations made to RQBs in prior years

Availability of audit work

2.34. The reduction in the number of statutory audits following the substantial increases in the audit threshold in recent years raised questions about the amount and variety of audit work available in some firms approved to train auditors. We recommended that the RQBs assessed the variety and amount of audit work available for students as part of their approval and monitoring of training offices. Where there was a concern that students might not receive sufficient experience the body should ensure that any student was aware of this and should monitor the training office closely.

2.35. The bodies concerned have changed their procedures so that upon approval or continued authorisation of a training office the reviewer identifies whether there will be sufficient audit experience available for trainees. Where this is judged not to be the case this is flagged on the system and discussed with the trainees. The fall in the amount and variety of audit work available for trainees in smaller practices is an issue for all RQBs. This is one of the issues the Auditor Working Group is investigating – see para 2.38 below.

Practical Training Project

2.36. The Oversight Board published its report on the practical training of auditors in October 2008. We undertook this review because of the concerns arising from the changing market structure for audit in the UK and concerns raised during our previous RQB annual compliance visits. The report focused on the policies, systems and practice governing the practical training of auditors.

2.37. The main findings were:

- Availability of audit work in small audit firms. With a falling number of company audits, following increases in the audit threshold, smaller audit firms find it increasingly difficult to provide trainees and audit staff with sufficient audit experience to achieve the audit qualification and to maintain competence once qualified;

- Audit firm ownership. The declining number of qualified auditors may make it more difficult for firms registered to conduct audits to meet the Companies Act requirement that they must be controlled by audit-qualified individuals;
- Retention of trained auditors in larger firms. Larger firms have tended to recruit trained auditors from smaller firms to replace their own newly qualified auditors who leave to follow a different career path. With a smaller supply of trained auditors from smaller firms, this is likely to prove more difficult.
- Operational issues. The research team found evidence that mentoring arrangements to support trainees could be improved; that there were weaknesses in training records; and that the integration of practical training and examination preparation, seen as the best way to develop trainees, merited closer examination.

2.38. The bodies recognise that there are profession-wide issues raised by our work and are working with the Oversight Board through the Auditor Working Group to address the issues, in particular the concerns as to the structure of the audit market. The outcome of this work will be shared with the audit firms.

2.39. The bodies will address the operational issues individually and we will review progress with each of the bodies in 18 months time.

Statistical Annex

2.40. Annex 2 provides statistical information on the regulatory activities of recognised supervisory and qualifying bodies in respect of:

- audit firms registered with the supervisory bodies
- audit monitoring visits by the supervisory bodies
- complaints to recognised bodies about statutory auditors
- student registration
- registered training offices

Number of Registered Audit Firms

2.41. All the RSBs, with the exception of ICAI, report a fall over recent years in the number of registered UK audit firms. This is primarily a result of the large increases in the threshold for mandatory statutory audit in the UK. This has had a significant impact at the smaller end of the market. As a result some firms have withdrawn their audit registration or merged.

The position in the Republic of Ireland is different: the major change in audit thresholds is much more recent.

Results of Audit Monitoring

2.42. Considerable care is needed in interpreting the results of monitoring by the RSBs of non-public interest entities, shown in Annex 2, and as reflected in the grading of visits by inspectors. Most importantly, the sample of firms visited is not purely random but is likely to include a number of higher risk firms. Moreover, the gradings have somewhat different meanings at different bodies and it would be wrong to compare one body against another, based on this information. Nevertheless, we note with some concern that the percentages of firms visited that receive either a C or a D grade – in simple terms, firms at which there were significant issues of poor quality audit work and/or of non compliance with requirements, requiring some follow up action – remain high. Whilst these statistics support the view that the monitoring unit at each body takes its role extremely seriously, they also invite questions as to the root causes underlying the figures. This is not simply a question of one year's statistics – this is a recurring pattern. Our concerns are reinforced by our separate work with the accountancy bodies on the poor quality of accounts filed at Companies House, including accounts that have been audited. This year's monitoring visits have highlighted recurring weaknesses that are identified by the RSBs during monitoring visits. We have asked all RSBs to work together to identify the root cause of the recurring issues and develop appropriate plans to minimise these and raise the quality of audit work.

Transparency Reporting by Auditors of Public Interest Entities

2.43. In April 2008, the Oversight Board brought into force new legal requirements on the auditors of certain public interest entities to publish annual Transparency Reports. Although the requirements apply for the first time in respect of reporting periods ending after March 2009, we were pleased to see that seven of the ten largest audit firms published Transparency Reports on a voluntary basis in 2008. We noted, however, that there were significant differences of approach, content and level of detail provided.

2.44. We consider that Transparency Reports are an important mechanism for auditors of public interest entities to communicate to interested parties information about themselves, and particularly their approach to audit quality. However, to be valuable documents, the audit firms need to prepare these to meet the spirit as well as the letter of the requirements.

We have therefore published recently an analysis of the 2008 reports and invited firms to consider a number of specific points before finalising their 2009 Reports.

Notifications of change of auditors

2.45. The Companies Act 2006 introduced a new requirement, from April 2008, flowing from the Statutory Audit Directive, that both the outgoing auditor and the company must notify the "appropriate audit authority" of the reasons for the change of auditors. The Oversight Board is the audit authority for "major audits"; the recognised supervisory body of the audit firm is the audit authority in all other cases. The intention is to alert regulatory bodies more directly to situations where the reasons for a change of auditor might point to underlying issues, such as weaknesses in a company's accounts or possible fraud, where action might be needed to protect shareholders or the public.

2.46. In the first year, 305 notifications have been made in respect of "major audits". In 9 such cases, we judged that the notifications should be drawn to the attention of the Financial Reporting Review Panel, the Audit Inspection Unit and/or Companies Investigations Branch of the Department for Business.

2.47. Our view, based on the first year, is that there has been some regulatory benefit from the notifications in respect of major audits but that it is questionable whether these are commensurate with the additional bureaucracy imposed on companies and audit firms. We will discuss with your officials the scope for making changes that retain the benefits but reduce the burden.

Complaints to the Professional Oversight Board about registered auditors, accountants and actuaries

2.48. In 2008 the Oversight Board published its policy on the handling of complaints it receives about the way in which a recognised body has handled a complaint about a registered auditor, accountant or actuary.

2.49. The Oversight Board has a statutory responsibility under company law to ensure that those accountancy bodies recognised to supervise auditors and audit firms have effective arrangements in place to investigate complaints against their members and member firms or about the way, they have exercised their regulatory functions.

2.50. By agreement with the six chartered accountancy bodies, and the Institute and Faculty of Actuaries, the Oversight Board also exercises independent oversight of the way those bodies exercise their regulatory functions in relation to their members more generally.

2.51. The Oversight Board will consider complaints that raise concerns about the way in which a professional accountancy or actuarial body has handled a complaint. However, the professional bodies are responsible for their own regulatory processes and the Oversight Board will not consider the merits of an individual case or second guess the conclusions reached by the professional body under its own processes.

2.52. An analysis of the complaints received by the Oversight Board in each of the three years to 31 March 2009 is shown below.

Complaints made to the Oversight Board

Year end 31 March	2007	2008	2009		Audit	Non audit
AAPA	0	0	0		0	0
ACCA	4	1	2		1	6
CIMA	1	0	0		1*	0
CIPFA	0	0	0		0	0
ICAEW	3	3	4		3	7
ICAI	0	0	0		0	0
ICAS	1	2	1		1	3
Institute of Actuaries	0	0	0		0	0
Faculty of Actuaries	0	0	0		0	0
Totals	**9**	**6**	**7**		**6**	**16**

* *Complaint about a CIMA member, who had signed an audit opinion.*

Three – Report of the Independent Supervisor of Auditors General

Introduction

3.1. The Independent Supervisor Appointment Order 2007 (SI 2007/3534), which came into force on 6 April 2008, appoints the Professional Oversight Board as the "Independent Supervisor" for the purposes of Section 1228 of the Companies Act 2006 (the 2006 Act). Section 1231 of the 2006 Act requires that the Independent Supervisor reports on the discharge of its responsibilities at least once in each calendar year to the Secretary of State, to the First Minister of Scotland, the First Minister and the Deputy First Minister in Northern Ireland, and to the First Minister for Wales. For 2009, we have decided to discharge this requirement by including a freestanding section in this Annual Report to the Secretary of State, which we will send separately to the relevant Ministers in Northern Ireland, Scotland and Wales.

3.2. Under the 2006 Act, the Comptroller and Auditor General (C&AG) and the other Auditors General are eligible for appointment as the statutory auditors of companies for the first time, where certain conditions are met. This allows Auditors General to audit public sector companies and other public sector entities that require an audit under the Act. To date only the C&AG has confirmed that he wishes to undertake statutory audits under the Act. The relevant staff in the National Audit Office (NAO) are currently undertaking the first such audits in respect of accounts for financial years ended 31 March 2009.

Supervision Arrangements

3.3. Section 1229 of the 2006 Act requires that the Independent Supervisor establishes arrangements for:

- determining the ethical and technical standards to be applied by an Auditor General in their statutory Companies Act audit work;
- monitoring the performance of statutory Companies Act audits carried out by an Auditor General;
- investigation and discipline in relation to any matter arising from the performance of a statutory Companies Act audit by an Auditor General.

3.4. The responsibilities of the Independent Supervisor do not extend to the other statutory audit work of the C&AG.

Reporting Requirements

3.5. We report below in accordance with the requirements of Article 4(a) to (e) of the Independent Supervisor Appointment Order 2007.

Discharge of Supervision Function

(a) (i) The Oversight Board has entered into a supervision arrangement with the Audit Inspection Unit (AIU). Under this arrangement, the AIU will monitor any statutory audit work undertaken by Auditors General. The AIU is currently formulating the scope of the work that they will carry out. We expect that the first AIU review of statutory audits undertaken by the C&AG will take place early in 2010.

(ii) We have also entered into a Memorandum of Understanding with the C&AG, which requires the C&AG and relevant NAO staff to follow prescribed technical and ethical standards when conducting Companies Act statutory audits. This MOU provides for investigation and disciplinary procedures that would apply were there a need to discipline the C&AG in his capacity as a statutory Companies Act auditor.

(iii) We intend to enter into similar arrangements with other Auditors General as necessary.

(iv) We periodically meet with senior staff responsible for the audit practice of the NAO on behalf of the C&AG. We have reviewed and discussed with senior staff the results of the recent internal and voluntary external quality assurance processes. We have also familiarised ourselves with the procedures put in place at the NAO to discharge their new duties.

Compliance by Auditors General with duties under 2006 Act

(b) As noted above, to date only the C&AG has expressed an intention to undertake statutory audits. No Auditor General is in breach of duties under the 2006 Act.

Notification by Auditors General under Section 1232 of the 2006 Act.

(c) No Auditor General was required to notify the Independent Supervisor of any information under Section 1232 of the 2006 Act.

Independent Supervisor's Enforcement Activity

(d) We issued no enforcement notices and made no applications for compliance orders in 2008.

Account of Activities relating to the Freedom of Information Act

(e) We received no requests for information under the Freedom of Information Act in relation to our role as the Independent Supervisor.

Financial Information

3.6. Article 5 of the Independent Supervisor Appointment Order 2007 requires that the Independent Supervisor prepare and publish financial information of its expenditure in such manner as its sees fit at least once in each calendar year.

3.7. In the financial year 2008/09 the core operating costs of the Professional Oversight Board together with an allocation of the central overheads of the Financial Reporting Council (of which the Board is a part) were £1.3 million. We estimate that less than 5% of those costs related to our role as the Independent Supervisor.

Four – International Regulatory Responsibilities

Changes in the structure of audit firms in Europe

4.1. 2008 saw two of the largest international audit firms announce major structural changes affecting their European firms, triggered in part by changes in the Statutory Audit Directive permitting the ownership of an audit firm in one member state by an audit firm or individual auditors in another member state.

4.2. KPMG established a UK LLP, KPMG Europe LLP, to own member firms in the UK, Germany and in a number of other European countries. Ernst & Young announced that it was combining the management of practices in 87 countries within Europe, India, Middle East and Africa into one unit, again using a UK LLP as the vehicle for ownership of the European parts of that network. Where legally possible, partners in the national practices give up their local partnership rights in return for rights in regional partnerships and the practices are managed much more as a single unit. However, in part to meet current statutory requirements in the EU, the national practices continue to enter into the contractual arrangements with their clients.

4.3. These changes have important implications for how the Oversight Board regulates the UK audit firms. In particular, as key decisions on audit procedures and practices are taken increasingly outside individual jurisdictions, it becomes more important for oversight bodies in different Member States to work closely together, in particular on monitoring a firm's overall procedures. We therefore took the first steps in 2008/09 to establish the basis for cooperation over the regulation of such firms with our counterparts in other key Member States.

Regulation of Third Country Auditors

4.4. A more immediate priority for 2008/09, but one that also required close cooperation with oversight bodies in other Member States, has been to put in place appropriate arrangements for the regulation of certain auditors from outside the EU.

4.5. The Statutory Audit Directive, adopted by the European Union in May 2006, for transposition into national law by the end of June 2008, includes specific provisions on the regulation of the auditors ("third country auditors") of companies from outside the EU[1] that issue securities traded on EU regulated markets. These provisions are designed to protect European investors by strengthening confidence in the audits of non-EU companies traded on European markets. They were also in part a response to the establishment in the US under the Sarbanes Oxley Act of the Public Company Accounting Oversight Board, whose remit extends to the auditors of non-US companies.

4.6. The Government has delegated to the Oversight Board the responsibility, within a statutory framework, for setting and applying the detailed requirements for the regulation of the non-EU auditors of companies traded on UK regulated markets.

4.7. The issue is important because the UK has the most significant range and complexity of relevant third country issuers, reflecting the importance of the London markets internationally. Moreover, translating the complex Directive requirements into practicable, effective and proportionate regulation poses considerable challenges.

4.8. The Board's long term aim is to reach a situation where countries with well developed and broadly equivalent systems of audit regulation place full reliance on one another's work with appropriate exchange of information rather than imposing duplicative regulatory requirements. This is difficult because some countries, notably the US, have so far been unwilling to place full reliance on the regulatory systems in any other country, and are unable to exchange relevant information. Moreover, systems of independent audit regulation are at widely differing stages of development in different countries. This restricts the ability of the EU in the short to medium term to take positive decisions on equivalence other than for a limited group of third countries.

4.9. Our priorities during 2008/09 were:

- to ensure that further decisions at the European level provided a practical framework for implementing the requirements in ways that suited the UK's regulatory needs; and
- to put in place detailed arrangements for registering and regulating third country auditors that were practicable, supported the long term aim of full mutual reliance, and reflected as far as possible a common approach across the EU.

[1] For this purpose, the EU includes the members of the European Free Trade Area, that is, Norway, Iceland and Lichtenstein.

Commission Transitional Decision

4.10. We strongly supported the Decision by the European Commission on transitional measures, agreed in July 2008. These provide for a simplified system of registration for third country audit firms from countries judged either to have well developed regulation of auditors already in place or judged likely to move in that direction. The Decision disapplies the Directive's requirements for periodic inspections, for a transitional period covering the audits for financial periods starting before 1 July 2010. This gives third countries the opportunity to develop independent audit regulation and oversight, and provides the European Commission and Member States with time to assess the equivalence of third countries. The Directive allows Member States to exempt audit firms from inspection by EU regulators and most other Directive requirements, where they are subject to an equivalent system of audit regulation to that required of Member States under the Directive.

Registration of Third Country Auditors

4.11. We worked closely with regulators in Germany and the Netherlands in the summer of 2008 to develop practical arrangements for the registration and regulation of third country auditors that reflected to the maximum extent possible a common approach across the EU to registration and regulation. In particular we developed detailed application forms and guidance for those wishing to register under either the transitional regime or, for auditors from the minority of countries for which this is not available, under the full Directive registration requirements.

4.12. The result was that by October 2008 we had the necessary arrangements in place for considering applications for registration. In practice, only a handful of applications had been received by the end of March 2009, though we are expecting of the order of 100 third country audit firms to apply for registration during 2009/10.

International Forum of Independent Audit Regulators (IFIAR)

4.13. Oversight Board staff represent the UK on IFIAR, the objectives of which are to:

- share knowledge of the audit market and practical experience of independent audit regulation;
- promote collaboration in regulatory activity; and

- provide a focus for contacts with other international organisations interested in audit quality.

4.14. A particular focus of IFIAR has been to organise workshops of independent regulators to share expertise in audit monitoring. The Oversight Board's Audit Inspection Unit is widely considered internationally as a leading authority in audit monitoring with many other countries looking to the UK to assist in the development of their own independent inspection capacity.

Five – Monitoring the Quality of the Auditing of Economically Significant Entities

Introduction

5.1. The AIU's inspections of the major audit firms, on which it reports publicly, comprise a review of the firms' policies and procedures supporting audit quality and a review of the quality of selected audits of listed and other major public interest entities that fall within the scope of independent inspection, as determined each year by the Oversight Board.

5.2. The AIU review firms' policies and procedures in the following areas:

- Leadership, strategy and communications
- Performance evaluation, promotions and remuneration
- Other human resource matters
- Client risk assessment and acceptance/continuance
- Consultation and review
- Audit quality monitoring
- Independence and ethics
- Audit methodology

5.3. The AIU's reviews of individual audits place emphasis on the appropriateness of significant audit judgements exercised in reaching the audit opinion, as well as the sufficiency and appropriateness of the audit evidence obtained.

5.4. The AIU's inspections include, but are not restricted to, an assessment of compliance with the requirements of relevant standards and other aspects of the regulatory framework for auditing. These comprise the auditing standards and ethical and quality control standards for auditors issued by the FRC's Auditing Practices Board (APB)[2] and other relevant requirements under the ICAEW's Audit Regulations[3]. The AIU also assesses judgements exercised by firms in applying the principles underlying the APB's standards.

[2] International Standards on Auditing (UK and Ireland), APB Ethical Standards and International Standard on Quality Control (UK and Ireland) 1.

[3] The Audit Regulations are issued jointly by The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland.

5.5. The AIU seeks to identify areas in which in its view improvements are required to safeguard audit quality, including matters relating to compliance with regulatory requirements, and to agree an action plan with each firm to achieve these improvements. The AIU also assesses the extent to which each firm has addressed the findings arising from the previous AIU inspection.

5.6. The AIU provides the Audit Registration Committees of the professional accountancy bodies in the UK, which register firms to conduct audit work, with a report on each major firm containing a number of findings relating to safeguarding or improving audit quality, together with an overall recommendation on whether the firm's audit registration should be continued. In addition, the AIU reports separately to the Audit Registration Committees on findings arising from its reviews of audits at smaller firms.

5.7. The AIU's inspections are not designed to, nor would it be possible to, identify all weaknesses that may exist in the design and/or implementation of the firm's policies and procedures supporting audit quality or in relation to the performance of the individual audit engagements selected by the AIU for review and cannot be relied upon for this purpose.

5.8. The AIU does not carry out a detailed technical review of the audited financial statements in reviewing individual audits. The AIU's focus in relation to financial reporting issues is on the appropriateness of audit judgements exercised and any underlying deficiencies in the firm's audit work and quality control procedures. Accounting and disclosure issues identified are therefore raised with firms in an audit context rather than a financial reporting context. However, the AIU challenges audit judgements on financial reporting issues, where appropriate, as an integral part of its work.

5.9. If the AIU identifies a significant concern during the course of a review of an individual audit as to whether an accounting treatment adopted and/or disclosures provided comply with the applicable accounting framework, it may draw the matter to the attention of the FRC's Financial Reporting Review Panel (FRRP). It is then for the FRRP to consider the matters in accordance with its Operating Procedures.

5.10. Similarly, if during the course of its inspections the AIU identifies a significant concern as to the conduct of an individual or firm it may draw the matter to the attention of the FRC's Accountancy and Actuarial Discipline Board (AADB).

5.11. The monitoring units of the professional accountancy bodies in the UK are responsible for monitoring the quality of audit engagements falling outside the scope of independent inspection by the AIU but within the scope of audit regulation in the UK. We report on the Board's oversight of the monitoring activities of the professional bodies within Section 2 above.

Coverage of Inspections

5.12. During 2008/9, the AIU undertook full scope inspection visits, comprising a review of firm-wide procedures and individual audits within its scope, at eight of the nine firms that audit more than ten entities within its scope (Baker Tilly UK Audit LLP, BDO Stoy Hayward LLP, Deloitte LLP, Ernst & Young LLP, Grant Thornton UK LLP, Howarth Clark Whitehill LLP, KPMG LLP and KPMG Audit Plc, and PricewaterhouseCoopers LLP). Baker Tilly UK Audit LLP is registered by the ICAS and the other seven firms are registered by the ICAEW. PKF (UK) LLP, the other firm subject to full scope AIU inspections, formed part of the AIU's inspection programme for 2007/8.

5.13. The AIU also carried out inspection visits at ten smaller firms. For these firms, the AIU's work comprised reviews of one or more of the small number of listed or other major public interest entities audited by them.

5.14. Staff from the US Public Company Accounting Oversight Board participated in certain aspects of the AIU's 2008/09 inspection of Grant Thornton UK LLP, by agreement with the firm.

5.15. At the request of the Audit Commission, the AIU also undertook an inspection on a contractual basis covering its firm-wide procedures and selected individual audits (entities audited by the Audit Commission are outside the scope of audit regulation).

Analysis of audits reviewed by the AIU

5.16. In the year to 31 March 2009 the AIU completed the review of 92 audits undertaken by audit firms (compared to 90 and 103 in 2007/8 and 2006/7 respectively), as set out by firm type in the following table.

Firm type	File reviews 2008/9	File reviews 2007/8	File reviews 2006/7
Big four firms	54	60	67
Other larger firms	25	20	25
Smaller firms	13	10	11
Total	**92**	**90**[4]	**103**

5.17. In addition, the AIU undertook seven reviews of individual audits at the Audit Commission in 2008/9 (five in 2007/8, nil in 2006/7).

Reporting on inspections

5.18. The AIU published individual public reports in December 2008 on the findings of the seven full scope inspections it undertook in 2007/8. It will publish public reports on the findings of the eight full scope inspections undertaken in 2008/9 towards the end of 2009. The AIU's public reports are based on more detailed private reports on each inspection, which it provides to the relevant Audit Registration Committee (paragraph 5.6). The AIU also publishes a short overview report summarising key overall findings from the AIU's inspection in 2008/9, with specific coverage of the findings of the AIU's inspections at smaller firms.

5.19. The AIU issued reports on individual audits reviewed in 2008/9 to the audit firms concerned, with a view to copies of the reports being provided by them to the directors of the relevant audit clients. The Board considers that these arrangements for reporting on the AIU's reviews of individual audits, which took effect at the start of 2008, are making an important contribution to the transparency of reporting on the findings of the AIU's work and, ultimately, on audit quality.

Issues Arising from 2008/9 inspections

5.20. The AIU had not finalised reports on its work at most of the larger audit firms at the time of writing; the points made below should be read in this context. The Board considers that the overall findings of the AIU's inspections during 2008/9 support the view that the

[4] Includes three file reviews commenced in 2006/7 and completed in 2007/8. The equivalent figure for 2006/7 was 11.

quality of auditing in the UK is fundamentally sound and that the firms have made good progress in addressing prior year findings. However, the banking crisis and economic downturn have increased the challenges to auditors. We comment below on certain issues arising from the AIU's 2008/09 inspection work at some firms and on other matters that the Oversight Board considers it appropriate to highlight at this stage.

Tone at the top

5.21. The AIU found some evidence of firms increasing the emphasis on maintaining or improving financial performance in the current economic climate. This was apparent from the content of certain internal communications to audit personnel, the objectives set for certain audit personnel and bonus criteria. The AIU is concerned that this could lead audit personnel to believe that the importance certain firms place on quality, as opposed to maintaining or improving financial performance, has reduced. The AIU considers that, notwithstanding the economic environment, a clear and consistent message regarding the overriding importance of high quality work should continue to be delivered by all firms to their audit personnel.

5.22. The Ethical Standards do not permit firms to take account of success in selling non-audit services to audit clients in their arrangements for appraising, promoting and remunerating audit personnel. There was some evidence that the term "selling" was being narrowly interpreted and that audit personnel were seeking recognition and reward for their contribution in obtaining non-audit work from their audit clients. The AIU consider that conveying a message within a firm, whether implicitly or explicitly, that audit personnel will be rewarded for their contributions to the firm obtaining non-audit work from their audit clients is not consistent with the underlying principles of the Ethical Standards.

Audit challenges arising from the economic downturn

5.23. The AIU reported last year that, on the basis of work undertaken in the latter part of 2007, that it was satisfied that firms had responded appropriately at a firm-wide level to the audit challenges arising from what was then termed the "credit crunch". The AIU considered that firms had generally continued to take appropriate actions at a firm-wide level during 2008/9 to respond to increasing turmoil in financial markets and the onset of the economic downturn. Most firms issued significant additional guidance on a timely basis to audit personnel on key areas of increased risk relevant to their client base, such as the assessment of an entity's going concern status and the valuation of financial instruments in illiquid markets. Many firms also enhanced their audit procedures in key areas and/or strengthened their requirements for consultation with internal specialists or technical panels.

5.24. The audits reviewed by the AIU during 2008/9 were mainly undertaken prior to the more recent turmoil in financial markets and the onset of the economic downturn. However, the findings of the AIU's reviews of individual audit engagements during 2008/9 indicate that the extent to which audit procedures were enhanced in practice varied both between firms and between individual audit teams. In particular, the AIU identified the quality and extent of audit evidence supporting the assessment of going concern as an area requiring improvement in a number of cases.

5.25. The AIU expects to see the further actions by firms at a firm-wide level during 2008/9, reflected in an improved overall level of performance in key areas on audits reviewed during 2009/10. The Board announced in March of this year that the AIU would have particular regard during its 2009/10 inspections to audit issues relating to going concern, fair value accounting estimates and disclosures and the impairment of assets including goodwill and other intangibles.

Non-audit services

5.26. The AIU continued to review in 2008/9 whether the non-audit services provided by firms to their audit clients were permissible under the Ethical Standards and whether appropriate safeguards were in place to mitigate threats arising to their independence and objectivity. Issues arising in this area during 2008/9 included the adequacy of safeguards implemented on the audit where the firm also provided advisory services to the client and inappropriate involvement by firms of all sizes in the preparation of current and deferred tax numbers for listed clients. The AIU consider that firms need to exercise greater care in assessing whether it is appropriate for them to provide certain non-audit services to audit clients, and in identifying threats to their independence and objectivity and in assessing whether proposed safeguards are sufficient to reduce threats to an acceptable level.

Audit systems and methodologies

5.27. The AIU recognises that the lead-time for developing and implementing new or improved audit support systems and methodologies on a global basis within the larger firms is very significant. However, in the AIU's experience such new or improved audit support systems and methodologies generally represent significant improvements over the systems they replace. All firms will need to update their methodologies and/or audit support systems on a timely basis to reflect improvements to Auditing Standards due to take effect for December 2010 financial year-ends. The AIU therefore considers that, notwithstanding the economic downturn, firms need to maintain a significant level of investment in this area to ensure that improvements are delivered on a timely basis.

Six – Oversight of the Accounting and Actuarial Professions

Introduction

6.1. Our general oversight of the accountancy and actuarial work is undertaken through monitoring developments, assessing those issues that could adversely affect public confidence in accountants and actuaries and, where appropriate, undertaking more detailed research and making recommendations to the professional bodies and other appropriate bodies.

Oversight of the Accounting Profession

6.2. In light of the Board's risk analysis and the significant number of audit and actuarial related projects, no new substantive projects relating to the accounting profession beyond audit were initiated in 2008/9. However, the Board continued to monitor progress made by the professional accountancy bodies in implementing its recommendations emerging from the review of how accountants' support the needs of SMEs.

6.3. In its final report *How Accountants Support the Needs of Small and Medium-Sized Companies*, published in March 2006, the Board made seven recommendations to the professional accountancy bodies, which can be summarised in three categories as follows:

- Recommendation 3 was directed at improving the quality of financial information filed at Companies House with the involvement of members of the accountancy bodies;
- Recommendations 1,2,3,4,5 and 7 were directed at improving understanding of the importance of financial reporting, statutory filing options and their implications, and the role of accountants; and
- Recommendation 6 was directed towards the development of a cross profession report for use with non-audited accounts.

6.4. Overall the professional accountancy bodies have responded well to recommendation 3, fully understanding the adverse impact on the profession of systemic weaknesses in the quality of financial information filed at Companies House, and have taken steps to raise the awareness of this issue with members. One body has undertaken a follow up review of more than 5,500 sets of financial statements since the recommendation was made. Others have continued to review financial statements but used a much smaller sample. While the incidence of the filing of poor quality financial statements remains too high across all bodies, we see evidence of improvement in the period to 31 December 2008 within the large sample reviewed by one body.

6.5. As part of our regular monitoring activity, we will continue to discuss with the relevant bodies the outcome of their further work and its effectiveness in addressing the quality of information filed at Companies House. In addition, the Oversight Board will undertake a review of the bodies' practice review arrangements in 2009/10. Practice review, and how issues arising from it are addressed, is an important tool for improving the overall quality of work performed by accountants in practice.

6.6. It is more difficult for the Oversight Board to assess the extent and impact of actions taken by the professional accountancy bodies specifically to address our recommendations designed to improve understanding of the importance of financial reporting, statutory filing options and their implications, and the role of professional accountants. Nevertheless, individual bodies have taken action in this area and we note that this will be an ongoing aspect of the role of a professional body.

6.7. The FRC's draft plan for 2009/10 includes a project to assess the overall impact on SMEs of the regulatory framework for accounting and auditing. This project will undoubtedly consider some of the issues that these recommendations were designed to address and therefore the Oversight Board does not propose to take any further action in relation to this Recommendation at this stage.

6.8. Whilst a working group of accountancy bodies has met regularly to progress Recommendation 6, in our view the resulting proposals do not fully meet the principles underlying our recommendation. This recommendation sought to improve clarity of the extent and relevance of the involvement of professional accountants in the preparation of unaudited financial statements. Further, we consider that the development by one body of an alternative assurance service may in fact add to the confusion as to the work required by practitioners and the level of assurance users can place on the different services provided.

6.9. The Oversight Board believes that the principles underlying this recommendation are most likely to be met if the lessons learned from the work performed by the working group are considered and taken forward as part of the FRC's broader project to assess the impact on SMEs of the regulatory framework for accounting and auditing and related services.

Oversight of the Actuarial Profession

6.10. During 2008/9 we continued to develop our oversight of the Actuarial Profession. We have encouraged the profession to focus on the outcomes it is looking to achieve for regulating its members and the quality of its processes in education and training, ethical and conduct standards, CPD, compliance and discipline. A particular priority has been the development by the Profession of a more principles-based ethical code that adequately addresses conflicts of interest and the public interest.

The Actuaries' Code

6.11. We made it clear during the Profession's consultation on the new Actuaries′ Code that it should give its members a clear and unequivocal set of principles which affirm and support their commitment to the public interest through membership of the Profession. We encouraged the Profession to consider the risks to actuaries′ professionalism and how they might be addressed in the Code and in its regulation more generally, including the particular feature in actuarial work that pressures can come from direct clients, or, for in-house actuaries, from their employers, as well as from other interests.

6.12. With implementation now planned for the autumn, we welcome the specific principles that the Profession has now proposed, in response to our recommendations:

- standing up to undue pressure and influence which might undermine actuaries′ objectivity;
- acting on their concerns and challenging misconduct by others; and
- ensuring that communications with which they are associated are clear and not misleading.

Promoting actuarial quality

6.13. To develop and share our understanding of the drivers of actuarial quality and associated threats with the profession and users of their work, we worked with the Board for Actuarial Standards (the BAS) to produce a discussion paper on *Promoting actuarial quality*, which was published in May 2008.

6.14. The paper was aimed at creating a wider understanding of actuarial quality and how it can be improved, thereby helping achieve one of the FRC's main objectives: that users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility. Our interest inevitably focused on the three main regulated areas – life insurance, general insurance and pensions – but we were anxious not to constrain our approach. We looked to understand and develop descriptions and drivers of actuarial quality in the round, based on the development, use and interpretation of actuarial models.

6.15. Our findings and proposals were well received (both by users of actuarial work and practitioners), and we worked with our colleagues in the BAS to develop an Actuarial Quality Framework, published in January 2009, based on six drivers of actuarial quality:

- Reliability and usefulness of actuarial methods
- Communication of actuarial information and advice
- Technical skills of actuaries
- Ethics and professionalism of actuaries
- Working environment for actuaries
- Other factors outside the control of actuaries

Monitoring and scrutiny of actuarial work

6.16. In response to a recommendation from the 2005 Morris Review of the Actuarial Profession, we published a discussion paper in May 2008 on *Monitoring and scrutiny of actuarial work*, which reported on the work we had undertaken in conjunction with the Profession and other regulators. We had found enhanced independent scrutiny of actuarial work but limited monitoring of compliance with actuarial standards, and sought views on strategies and options which we might recommend to the Profession :

Strategy 1 (additional support for existing regulatory/market review processes)

Strategy 2 (additional professional requirements on actuaries or their firms)

Strategy 3 (active external monitoring).

6.17. In the light of the many helpful responses, we developed further the options we had set out in our discussion paper.

6.18. In all areas, we said that we would continue to pursue options under Strategy 1 (support for existing regulatory and market mechanisms) through our ongoing oversight of the Profession's regulation of its members.

6.19. In pensions, we said we would also pursue options under Strategy 2 (professional quality assurance requirements) by working with the Profession, the principal regulators and others to develop recommendations to the Profession, taking the opportunity to explore the possibility of a greater regulatory emphasis on the role of firms.

6.20. We also concluded that we should not recommend the establishment of an external inspection unit, either by the Profession or by another body, unless other proposals proved inadequate.

Seven – Work Programme 2009/10

Introduction

7.1. The Board's work programme for the year to 31 March 2010 reflects our four responsibilities: statutory independent oversight of the UK system of audit regulation, including our role as the Independent Supervisor of Auditors General, independent monitoring of the quality of the audits of major public interest entities, broader non-statutory oversight of the regulation of the accountancy profession, and oversight of the regulation of the actuarial profession.

7.2. The work programme is an integral part of the Financial Reporting Council's Plan and Budget for 2009/10. We draw out the major themes below.

Statutory oversight of the regulation of the auditing profession

7.3. Our approach to statutory oversight of audit regulation by the recognised qualifying and supervisory bodies continues to evolve. Increasingly in 2009/10 we shall tailor the extent of our monitoring activity at each body according to the outcome of our work over the last five years. However, as last year, we shall focus on the same themes across the bodies. Our fieldwork, starting in September 2009, will focus, for the Recognised Supervisory Bodies on the procedures and practices for handling complaints and disciplinary cases; and, for the Recognised Qualifying Bodies, on the monitoring and approval of training offices and the maintenance of student training records, key elements in ensuring that students receive adequate practical training to become competent auditors.

7.4. We are complementing this oversight of individual recognised bodies with work across the profession to follow up the report on the practical training of auditors published last November. The professional bodies recognise that our work raised profession-wide issues, particularly in relation to the structure of the market for audits of smaller enterprises. A joint group of the professional bodies and the Oversight Board – the Auditor Working Group – has been formed to address the issues.

7.5. A key initial aspect of our follow-up work is to understand better the relationship between the amount of audit work a firm undertakes and audit quality. This involves a review of the inspection findings from monitoring visits by all the professional bodies to a sizeable randomly selected sample of firms of varying size and with a varying quantity of audit work.

Monitoring the quality of major audits

7.6. For 2009/10 the Audit Inspection Unit will continue to carry out full scope inspections of the major audit firms, involving reviews of both firm-wide procedures and a sample of individual audits. The inspection process will include an assessment of how the firms have responded to the challenges arising from the recession, at both a firm-wide and individual audit engagement level. Some of the individual engagement level reviews will focus on, and be limited to, the auditors' work on going concern, impairments and fair values. The AIU will also review a sample of public interest audits at selected smaller firms undertaking audits within the scope of independent inspection.

7.7. The AIU is committed to a process of continuous improvement in the light of feedback from the firms subject to inspection and from others on how the process might be improved. As part of that commitment, the AIU will further refine its systems, work programmes and quality control procedures for the 2009/10 inspections to promote ongoing improvement in the quality of its work.

7.8. The AIU will be inspecting the NAO for the first time in early 2010, to review both its overall procedures and the quality of individual audits. The review will include the audit of profit making non-departmental public bodies and will therefore discharge the Oversight Board's delegated function as Independent Supervisor of the C&AG.

Wider oversight of regulation of the accountancy profession

7.9. In agreement with the accountancy bodies, we are undertaking a project to review their arrangements for monitoring general accountants in public practice and to assess the adequacy of these arrangements. All the principal bodies have introduced a scheme to accredit member firms in practice that includes some form of periodic monitoring. We share the desire of the bodies to use such schemes to encourage firms to improve their professional practice. At the same time, however, we want to be sure that the information provided on the benefits of using a professional accountant is accurate and does not mislead the public into thinking that there is a more rigorous system of vetting accountancy practices than is in fact the case.

International Priorities

7.10. In 2008/09, we put in place systems for registering and regulating auditors of third country issuers on UK capital markets. The challenge for 2009/10 is to ensure that these arrangements work in practice and are effective, as audit firms from around the world register with us. There are also challenges at EU level. One important element is to deepen regulatory cooperation between independent oversight bodies, increasingly important as major audit firms increase the level of their internal integration across their international networks. But beyond that there is an increasingly urgent need, through the European Group of Auditor Oversight Bodies, to support the European Commission. This is important both for the development of the European statutory framework beyond the current transitional regime for third country auditors, and for developing the relationships and agreements with key third countries that will facilitate mutual reliance on one another's systems of audit regulation and sensible arrangements for the exchange of relevant information.

7.11. We will continue to support the FRC in promoting international regulatory cooperation through participation in the International Forum of Independent Audit Regulators.

Oversight of the actuarial profession

7.12. In 2009/10 we will continue to monitor the regulatory activities of the Actuarial Profession, including following up its response to the recommendations made in our May 2009 report *The Actuarial Profession's progress and priorities in regulating its members*, as well as developments that could adversely affect public confidence in actuaries.

7.13. Priority areas we have identified for the profession include the issue of its new ethical code, and development of a standard on conflicts of interest in pensions. The Profession has also agreed to consider proposals for broadening its practising certificate requirements to reflect the expectations of users as well as the adequacy of quality controls operated by actuarial firms.

7.14. In our report, we set out our high-level recommendations in the area of monitoring and scrutiny of actuarial work, by reference to the Profession's current and proposed projects and reviews. We believe that the Profession should consider ways of promoting these arrangements in order to support confidence in the work of consulting actuaries and to enhance and confirm the compliance of its members with their individual responsibilities.

However, there is a need for guidance, particularly for smaller firms. We will continue to encourage the profession to focus on the quality and intended outcomes of its regulatory processes, including in the area of education and continuing competence requirements for practising actuaries. We will also keep under review, with our colleagues in the BAS, two key FRC documents which we published in 2008/09:

- *Challenges to users of actuarial information arising from the current market conditions*, including the questions users might put to their actuaries;
- *Actuarial Quality Framework*, including the principal drivers of actuarial quality.

7.15. The Profession has agreed to consider our recommendations carefully and expects to have developed initial proposals and a clear timetable for its work by the end of 2009. We intend to make a further report in 2010 once we have reviewed the Profession's proposals and their implementation.

Resources

7.16. In 2008/09 the operating costs of the Oversight Board (excluding the Audit Inspection Unit) were £1.3 million, excluding support services provided centrally and the cost of actuarial oversight that is funded separately. The average number of staff in post was 6. For 2009/10, the equivalent budgeted figures are £1.4 million and 8 staff.

7.17. The costs of the Audit Inspection Unit are accounted for separately. The cost for 2008/09 was £2.2 million, excluding support services provided centrally. The average number of staff in post was 18. The AIU is planning to operate with 20 staff in 2009/10 on a budget of £2.6 million

ANNEX 1

Statutory Basis for the powers and responsibilities of the Professional Oversight Board

In February 2008, Parliament approved a Delegation Order made by the Secretary of State for Business, under Sections 504, 1252 and 1253 of the Companies Act 2006 (the Act). This replaced a previous Order made in 2005, which delegated to the Oversight Board the Secretary of State's statutory functions for the oversight of the regulation of audit in the United Kingdom. In most respects, the powers and responsibilities delegated by the new Order are equivalent to those previously delegated. However, there are a number of additional functions, in particular:

- The Oversight Board is the appropriate authority for the receipt of notices under Sections 522 and 523 of the 2006 Act (notices of auditors ceasing to hold office) in respect of major audits.

- The Oversight Board has a specific obligation to set statutory requirements on auditors of public interest entities to prepare and publish annual transparency reports.

- The 2006 Act sets out a legal framework for the registration and regulation of auditors of issuers from outside the European Economic Area that have issued securities admitted to trading on UK regulated markets. This reflects requirements in the Statutory Audit Directive. The Government has delegated the responsibility for setting and administering the detailed requirements on third country auditors to the Oversight Board.

Under a separate Order, made under Section 1228 of the 2006 Act, the Secretary of State has appointed the Oversight Board as the Independent Supervisor of Auditors General. Section 1226 of the 2006 Act provides that Auditors General are eligible for appointment as a statutory auditor where certain conditions are met, and in particular that the performance of each Auditor General's functions as a statutory auditor is subject to supervision by the Independent Supervisor.

ANNEX 2

STATISTICAL ANNEX: REGULATORY ACTIVITIES OF RECOGNISED SUPERVISORY AND QUALIFYING BODIES

A) Audit Registration

	ACCA	ICAEW[5]	ICAI	ICAS
Number of audit firms				
As at 31.12.08	2,569	4,279	991	260
As at 31.12.07	2,697	4,526	1,006	266
As at 31.12.06	2,741	4,817	1,028	300
Number of Office locations, as at 31.12.08				
1	2,294	2,999	914	197
2-3	264	1,145	73	47
4-10	9	118	4	15
10+	2	17	0	1
Number of Office locations, as at 31.12.07				
1	2,417	3,297	929	212
2-3	267	1,107	72	41
4-10	11	107	5	11
10+	2	15	0	2
Number of Office locations, as at 31.12.06				
1	2,454	3,660	958	238
2-3	275	1,039	66	48
4-10	10	103	4	12
10+	2	15	0	2
Number of Principals, as at 31.12.08				
1	1,778	2,092	630	100
2-6	767	1,924	337	138
7-10	14	147	14	14
11-50	10	101	8	7
50+	0	15	2	1

[5] The ICAEW figures are for those firms that were to be registered as at 1 January the following year.

	ACCA	ICAEW[5]	ICAI	ICAS
Number of Principals, as at 31.12.07				
1	1,894	2,265	654	109
2-6	770	1,986	329	132
7-10	25	156	13	17
11-50	8	106	9	7
50+	0	13	1	1
Number of Principals, as at 31.12.06				
1	1,954	2,481	666	127
2-6	753	2,115	339	148
7-10	28	146	12	17
11-50	6	105	10	7
50+	0	12	1	1
Number of new applications[6]				
Yr to 31.12.08	99	285	41	19
Yr to 31.12.07	77	272	41	19
Yr to 31.12.06	89	258	35	14
Number of applications refused[7]				
Yr to 31.12.08	0	0	0	0
Yr to 31.12.07	0	0	0	0
Yr to 31.12.06	0	0	0	0

The overall decrease in the number of registered audit firms can largely be explained by the increase in the audit threshold, resulting in a lower number of entities requiring an audit. The lower number of entities having an audit has meant that some firms have found that there is no longer a good business case for retaining their audit registration or have merged with other firms or passed on this work to larger firms where there are greater economies of scale.

[6] New applications, other than for ACCA, include those firms changing status, for example from a partnership to an LLP

[7] All applications that are refused must be considered by the registration/ licensing committee

B) Audit Monitoring

Following recognition in 1991, the recognised supervisory bodies started monitoring their member firms. The three territorial Institutes formed a single Joint Monitoring Unit (JMU) and the ACCA set up a separate monitoring department. From 1st January 2005, the JMU was disbanded and the monitoring of firms was undertaken by each Institute independently. The ICAEW's Quality Assurance Directorate assists the ICAI on visits to larger firms.

The Audit Inspection Unit (AIU) inspects the auditors of listed and other major public interest entities (see Section 5)

The Statutory Audit Directive (SAD) (effective April 2008 in the UK) introduced a requirement that the RSBs should monitor the activities undertaken by audit firms at least once every six years. This replaced the less prescriptive requirement in the 1989 Companies Act that RSBs had procedures in place to monitor their registrants; the frequency of these visits was left to the individual RSB to decide.

	ACCA	ICAEW	ICAI	ICAS
Number of firms monitored				
Actual 2008	401	988	88	54
Target 2008	Not Available	800	None set	50
Actual 2007	285	975	42	41
Target 2007	Not Available	920	50	40
Actual 2006	371	713	33	69
Target 2006	Not Available	875	50	50
Actual firms monitored as a % of audit registrants				
2008	15.6%	23.0%	9.6%	20.4%
2007	10.6%	21.5%	4.2%	15.4%
2006	13.5%	15.2%	3.2%	23.0%

As explained in Section 2 of this report and illustrated in the figures above, we consider that meeting the requirements of the SAD could prove challenging for some bodies. We asked all RSBs to provide us with a detailed analysis of how they intend to meet the SAD, and to confirm that they will keep a close watch on the position to ensure that their plans are realistic. We consider that it is important that RSBs avoid getting far behind in progress towards meeting the six year cycle, as it is then difficult, costly and inefficient to catch up.

	ACCA	ICAEW	ICAI	ICAS
Reason for monitoring visits				
2008				
Number of firms monitored following a request by the registration/ licensing committee	43	33	9	1
Number of firms with public interest entities visited without AIU[8] involvement	0	46	3	0
Number of firms specifically selected due to heightened risk	38	89	39	51
Number of firms randomly selected	320	820	37	0
2007				
Number of firms monitored following a request by the registration/ licensing committee	48	21	6	0
Number of firms with public interest entities visited without AIU[9] involvement.	0	29	3	0
Number of firms specifically selected due to heightened risk	35	244	21	38
Number of firms randomly selected	202	681	12	0

[8] AIU = Audit Inspection Unit
[9] AIU = Audit Inspection Unit

	ACCA	ICAEW	ICAI	ICAS
2006				
Number of firms monitored following a request by the registration/ licensing committee	37	42	9	1
Number of firms with public interest entities visited without AIU involvement	0	35	2	1
Number of firms specifically selected due to heightened risk	74	240	6	65
Number of firms randomly selected	260	396	16	1

Gradings

The grading process and definition of grades vary for each body. It is therefore not appropriate to use the gradings to compare audit quality between firms registered with the different bodies. Particular care is also needed in interpreting the percentage of "D" outcomes at each body, given in particular that the sample of firms inspected in any year is unlikely to be a random but will almost certainly include a disproportionate number of weaker firms.

The tables below show the gradings for the four bodies for visits conducted from 2006-2008.

ACCA

	2008	2007	2006
Number of A & B outcomes	211	159	182
% of A & B outcomes compared to all visits conducted	52	56	49
Number of C+ outcomes	95	65	64
% of C+ outcomes compared to all visits conducted	24	23	17
Number of C- outcomes	31	20	33
% of C- outcomes compared to all visits conducted	8	7	9
Number of D outcomes	64	41	92
% of D outcomes compared to all visits conducted	16	14	25

ACCA grades visits A-D. Those that are graded 'A' are judged to be satisfactory and comply with all material aspects of the Global Practising Regulations (GPRs) and Code of Ethics and Conduct (CEC). Those visits rated B are judged acceptable and any deficiencies found in audit work minor and unlikely to have compromised the audit opinion issued. Visits are graded 'C' by the ACCA if the audit work is unsatisfactory at a single visit and improvements are required. When a firm has a second unsatisfactory visit and there are no mitigating factors, the firm will be referred to the Regulatory Assessor/ Admissions and Licensing Committee (ALC) and the visit graded a 'D'. In addition, where there are serious breaches of other regulations then the matter will be referred to the Professional Conduct Department and the visit graded a 'D'. The gradings of a visit are not based solely on the standard of audit work; the outcome could be deemed unsatisfactory due to the breach of client money rules or CPD regulations.

During 2008, ACCA dedicated more resources to carry out statutory monitoring visits in order to ensure that all firms carrying out audit work are visited within a six year cycle in accordance with the SAD and that high risk firms are visited more frequently. During 2008, 43 firms were monitored by order of the Admissions and Licensing Committee (ALC). Of these firms 25 (58%) were found to have improved their procedures so that their compliance with auditing standards was satisfactory. ACCA aims to visit most of these firms within four years to ensure that standards have been maintained. 17 firms remained unsatisfactory and were referred back to the ALC for further action.

ICAEW

	2008	2007	2006
Number of A & B outcomes	601	582	457
% of A & B outcomes compared to all visits conducted	61	60	64
Number of C outcomes	218	283	188
% of C outcomes compared to all visits conducted	22	29	27
Number of D outcomes	124	110	64
% of D outcomes compared to all visits conducted	13	11	9
Number of N outcomes	45	N/A	N/A
% of N outcomes compared to all visits conducted	4	-	-

The above figures represent those reports finished in the year and reported to the Audit Registration Committee (ARC).

The ICAEW class all visits graded A-C as satisfactory. Visits graded 'A' are those where there are no instances of non-compliance with the Institute's audit regulations and no regulatory action is required. 'B' rated visits are those with evidence of non-compliance with the audit regulations of the Institute, but where the Quality Assurance Directorate (QAD) is confident, that the firm's proposed actions set out in the closing meeting notes adequately address all the issues. In addition QAD believe that the firm has the ability to take action within the stated timescale and that they have the commitment to take the agreed action. A 'C' rated report records instances of non compliance with the audit regulations where the QAD considers that there is a need for follow-up action, due to some doubt about the actions proposed or the firm's competence, resources or commitment, but that there is no need for the Audit Registration Committee (ARC) to impose any further conditions or restrictions. 'D' rated visits record cases of non-compliance with the audit regulations that need to be referred to the ARC for possible further action. A new visit grading was introduced during 2008 (N rated visits). This grade is given to those firms with no audit clients; these would have previously been given a C rating.

The ICAEW's visit gradings between 2006 and 2008 have not varied significantly. The ICAEW have explained that any differences that arise are as a result of the difference in the population visited.

ICAI

	2008	**2007**	**2006**
Number of A & B outcomes	23	10	7
% of A & B outcomes compared to all visits conducted	26	24	23
Number of C outcomes	38	17	10
% of C outcomes compared to all visits conducted	43	40	32
Number of D outcomes	27	15	14
% of D outcomes compared to all visits conducted	31	36	45

The ICAI consider all visits graded A to C as a 'pass'. There is a considerable difference between a report graded a 'C' and one graded a 'D'. A grade C is given, where a number of issues have arisen on a visit but the firm has appropriate action plans to address the issues, and there is generally no follow up action required. In contrast, those reports graded a 'D' have significant issues and will always require follow up action.

Between 2006 and 2008 there has been a reduction in the percentage of poor reports but this has not been matched by an equivalent increase in reports with A and B outcomes. However, the ICAI have stated that it is important to remember that the population visited is different year on year and therefore not comparable.

ICAS

	2008	**2007**	**2006**
Number of A & B outcomes	20	21	33
% of A & B outcomes compared to all visits conducted	37	51	50
Number of C outcomes	22	14	21
% of C outcomes compared to all visits conducted	41	34	30
Number of D outcomes	12	6	15
% of D outcomes compared to all visits conducted	22	15	20

An 'A' rating indicates there are no issues to deal with. A 'B' rating indicates there are some regulatory issues but that these have been adequately addressed by the firm's closing meeting responses and no further action is required. 'C' gradings indicate that there are regulatory issues and there is a need for the firm to show that planned changes have occurred by submitting further information. A 'D' rating is given when the standard of compliance is such that the Audit Registration Committee needs to consider appropriate follow up action, such as imposition of conditions and restrictions or withdrawal of registration.

The most marked difference in monitoring results for ICAS between 2006 and 2008 reflects a reduction in A and B rated visits from over 50% in 2007 to 37% in 2008. The main reason for the reduction in A and B rated visits and subsequent increase in C rated reports was difficulty in compliance with ISA audits for charities. In response to this ICAS have produced a special feedback report to firms.

C) Complaints about Auditors

	ACCA	ICAEW	ICAI	ICAS
Number of new cases[10]				
2008	26	91	80	10
2007	15	106	78	8
2006	10	78	113	4
Number of cases passed to the AADB[11]				
2008	0	2	0	0
2007	0	0	0	0
2006	1	2	1	0
Number of cases passed to committee[12]				
2008	5	77	32	5
2007	4	70	37	6
2006	4	57	27	2
Number of complaints[13] **closed in the year**				
2008	13	135	86	5
2007	7	86	92	4
2006	16	81	87	2
Average time taken to close a complaint				
2008	7.3 months[14]	10 months	9.5 months[14]	Two cases were closed by the Committee = 119 days. The remaining three cases were closed by Secretariat = 43 days

[10] Cases relate to audit related complaints only
[11] AADB suggest an emphasis on the exclusion of referrals i.e. 'taken on' rather than 'passed to'
[12] Cases passed to the committee relate to: a) the disciplinary committee for the ACCA b) Cases considered by the Investigation Committee and referred to the Disciplinary Committee for the ICAEW c) the Complaints, Disciplinary and Appeals committee for the ICAI and d) the Investigation committee at ICAS.
[13] Audit related complaints only
[14] This figure is for all complaint cases not just those against a registered auditor.

	ACCA	ICAEW	ICAI	ICAS
2007	6.4 months	12 months	9.8 months	For cases closed by Investigation & Professional Conduct Enforcement Committee = 45 days; cases closed by Secretariat = 42.5 days
2006	8.6 months	20 months	11 months	For cases closed by Investigation & Professional Conduct Enforcement Committee = 188 days

The ICAEW is the only body that saw a fall in the number of audit related complaints in 2008.

ICAS explained that the increase in the average time taken to handle complaints reflects the nature of the complaints and the complexity of the issues. All cases closed by the Secretariat are subject to a peer review and thereafter a review by at least three members of the committee, including two public interest members.

D) Student Registration

	ACCA	ICAEW	ICAI	ICAS	AIA[15]
Number of new students					
2008	21,787	5,104	1,665	1,030	27
2007	20,052	5,057	1,758	1,140	58
2006	21,395	4,639	1,497	1,188	-
Total number of students					
2008	93,510	16,165	5,958	3,347	281
2007	90,653	15,422	5,126	3,460	286
2006	85,296	11,680	4,525	3,154	-
Number of students who became members					
2008	4,736	2,827	1,237	745	4
2007	3,891	2,459	971	657	2
2006	3,356	2,604	884	511	-
Number of members who became audit qualified					
2008	108	3,551	867	26	0
2007	161	225	104	41	0
2006	165	197	80	25	-

The number of new students in 2008 illustrated the continued attraction of the profession with an increase in the number of new students at both ACCA and the ICAEW.

The proportion of students who become members is considerably lower for ACCA and the AIA than for the other bodies, where the number of students who become members is similar to the related student intake. The reason for this is that fewer students at these bodies complete all examinations successfully.

The table above shows the number of members who became audit qualified in 2008. The significant difference in the ICAEW's and the ICAI's figures in 2008 compared to prior years is as a result of these bodies, automatically awarding the audit qualification upon entitlement; rather than upon request.

[15] Information for AIA not requested prior to 2007.

E) Registered Training Offices in UK and Ireland

	ACCA	ICAEW	ICAI	ICAS	AIA[16]
Number of registered training offices					
2008	4,794	2,854	771	185	N/A
2007	4,794	2,938	722	174	N/A
2006	4,663	2,595	681	160	N/A
Number with students in training					
2008	N/A	1,553	465	N/A	N/A
2007	N/A	1,493	467	N/A	N/A
2006	N/A	1,383	454	144	N/A
Number with students training for the audit qualification					
2008	3,697	1,401	N/A	N/A	N/A
2007	3,777[17]	1,493	N/A	N/A	N/A
2006	3,772	1,383	N/A	N/A	N/A
Number of new applications					
2008	N/A	295	60	18	N/A
2007	N/A	176	40	25	N/A
2006	N/A	312	33	15	N/A
Number of applications refused					
2008	N/A	1	N/A	0	N/A
2007	N/A	4	N/A	0	N/A
2006	N/A	56	N/A	0	N/A
Number of registrations withdrawn					
2008	146	2	N/A	10	N/A
2007	76	1	N/A	11	N/A
2006	143	4	N/A	11	N/A
Number of approved training offices visited					
2008	597	214	148	42	N/A
2007	623	164	138	43	N/A
2006	701	168	53	49	N/A

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[16] Information for AIA not requested prior to 2007.
[17] The ACCA figures appear high in comparison to the number of ACCA audit registered firms as many of ACCA's training offices are audit registered with another RSB; ACCA also registers each location of a firm as a separate training office.

Number of approved training offices visited as a % of the total					
2008	12.5%	7.5%	19.2%	22.7%	N/A
2007	13.0%	5.6%	19.1%	24.7%	N/A
2006	15.0%	6.5%	7.8%	30.6%	N/A

The reduction in the number of approved training offices in 2008 for the ICAEW is as a result of a change in structure of existing authorised training offices resulting in a consolidation of training office numbers.

ACCA have explained that the main reason why training offices have had their registration withdrawn is the inability of firms to provide appropriate work experience.

ANNEX 3

PROFESSIONAL OVERSIGHT BOARD
1 April 2008 to 31 March 2009

Chair

Sir John Bourn KCB *- to 30 September 2008*	Comptroller and Auditor General, until his retirement at the end of January 2008.
Dame Barbara Mills DBE QC *- from 1 October 2008*	Adjudicator for HM Revenue and Customs and two other Government Departments between 1998 and March 2009. Member of the Competition Commission. Director of the Serious Fraud Office from 1990 to 1992; and Director of Public Prosecutions and Head of the Crown Prosecution Service from 1992 to 1997.

Members

Richard Barfield	A director of a number of investment trusts and adviser to two pension funds. Formerly Chief Investment Manager of Standard Life in Edinburgh.
Tim Barker *– to 31 March 2009*	Senior Independent Director of Drax Group plc and of Electrocomponents plc. Formerly Vice Chairman, Dresdner Kleinwort Benson and of Kleinwort Benson Group plc
Anthony Carus	Consulting Actuary in private practice and Director, Royal Liver Assurance Limited. Formerly Appointed Actuary, NFU Mutual Life Insurance Society
David Crowther	Member of the Board and Audit Committee Chair of TT Electronics plc and of the Treasury Solicitor's Department. Formerly a senior partner of PricewaterhouseCoopers LLP, responsible globally for quality assurance and risk management
Hilary Daniels	Board Member and Chair of Audit Committee, Olympic Lottery Distributor. Independent Member of the Professional Services Board of the Institute of Legal Executives. Formerly Chief Executive, West Norfolk Primary Care Trust
Roger Davis	Member of the Competition Commission. Formerly a partner and Head of Professional Affairs PricewaterhouseCoopers LLP
Stella Fearnley	Professor of Accounting, the Business School, University of Bournemouth
Paul George	Director of Auditing, FRC, and Director, Professional Oversight Board
Michael Jones *– to 31 March 2009*	Head of Management Services & Administration, Trades Union Congress
Anne Maher	Director, Allied Irish Banks plc and of Retirement Planning Council of Ireland. Formerly Chief Executive, The Pensions Board for Ireland

Secretary
John Grewe

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