Department for Business Innovation & Skills

Auditor Regulation: Discussion document on the implications of the EU and wider reforms

Summary of responses

Also including responses to questions 37-41 from the consultation on the Accounting Directive

OCTOBER 2015

Contents

1. Introduction

1.1 Effective financial reporting underpins the development of first class businesses - those that others are willing to invest in and to do business with. It informs decisions that are made, for example, by shareholders, directors, investors and suppliers. Audit is an essential safeguard to provide independent assurance that the financial reporting of businesses properly reflects their circumstances.

1.2 The Government issued a Discussion document on its approach to the implementation of the new Audit Directive from 17 December 2014 to 19 March 2015. The Discussion document noted those areas where a mandatory change was imposed and set out the Government's proposals where a new option was available or where it was intended that an established position should be changed.

1.3 In total 43 written responses were received. 4 respondents requested their response remained confidential – all the other responses are available on the BIS website and can be viewed at: https://www.gov.uk/government/consultations/auditor-regulation-effects-of-the-eu-and-wider-reforms

1.4 Overall, there was broad support for our proposals. A list of all organisations and individuals who responded is also provided below.

1.5 In addition to the written responses to the Discussion document, the policy and its supporting analysis has been informed by discussions with an expert working group which includes senior representatives from the accountancy and audit sector.

1.6 This document also provides a summary of the answers received to questions 37 to 41 from the consultation on the implementation of the provisions of the new Accounting Directive, which closed on 24 October 2014.

2. Responses Received

2.1 A total of 43 responses were received. 4 respondents requested their response remained confidential. The remaining 39 responses are categorised below.

RSBs[1] (4)

Institute of Chartered Accountants in England and Wales

Association of Chartered Certified Accountants

Institute for Chartered Accountants of Scotland

Institute of Chartered Accountants in Ireland

Big 6 accounting and audit firms (6)

Deloitte

KPMG

PwC

Ernst & Young

Grant Thornton

BDO LLP

Mid-tier accounting and audit firms (4)

Baker Tilley

Kingston Smith

Crow Clark Whitehill

Mazars

Corporate rep bodies (3)

Confederation of British Industry

GC100

QCA

Individuals (1)

AJ Lewis

Investor bodies (5)

British Venture Capital Association (BVCA)

Association of Investment Companies (AIC)

National Employment Savings Trust (NEST)

Local Authority Pension Fund Forum (LAPFF)

Investment Association

Other stakeholders (15)

BHP Accountants

Invesco

Kreeston Reeves

Blackrock

Royal Bank of Scotland

Institute of Chartered Secretaries and Administrators (ICSA)

Hermes

National Audit Office

Audit Commission

Rightmove

Association of Accounting Technicians (AAT)

Association of British Insurers (ABI)

Chartered Institute of Management Accountants (CIMA)

Association of Practicing Accountants (APA)

London Society of Chartered Accountants

[1] Recognised Supervisory Bodies (RSBs)

3. Analysis

This section provides a summary of responses received against each question in the Discussion Document. The intention it to provide interested parties with a basic understanding of what the responses showed.

The proposals- The main changes (Q 1-4)

Q1: In relation to the measures discussed in both this and the next chapter, we would welcome comments on the balance between legislative and non-legislative implementation of the requirements of the new Directive and Regulation.

In total 28 responses were received to this question (from 4 RSBs, 10 audit firms, 3 corporate rep bodies, 1 investor body and 10 other stakeholders).

Overall there was strong support for the Government to decrease the regulatory burden in the UK and to legally implement only the minimal requirements of the Directive. Some respondents also suggested that if the powers to implement the Directive and Regulation were delegated to the Financial Reporting Council (FRC), BIS should ensure that the FRC exercises these in accordance with the Government's commitment to minimal regulation.

It was recognised by a few of the respondents that some areas should be set via regulation, such as:

- the roles of the FRC and RSBs;
- the adoption of the Member State options to allow the maximum periods possible before compulsory rotation of auditors, and;
- the definition of public interest entities (PIEs).

Q2: In relation to all the Member State options in the Directive and the Regulation, we would welcome comments to inform our thinking on whether and how these should be taken up. Though many are discussed in this document and in specific questions, all the options in the Directive and Regulation are considered in the options tables that are being made available separately.

In total 21 responses were received to this question (from 4 RSBs, 10 audit firms, 1 investor body and 6 other stakeholders).

All these stakeholder groups were concerned around the issue of 'gold plating' of options and considered this should be avoided.

Q3: In relation to the measures discussed in both this and the next chapter, what issues do you think arise that have not been considered as part of the discussion? If there are any, how do you think these should be addressed?

In total 22 responses were received to this question (from 2 RSBs, 4 of the 6 largest audit firms, 2 mid-tier audit firms, 2 corporate bodies, 1 investor body, 10 other stakeholders and 1 individual).

Seven respondents raised the same issue related to the Government's proposal to delegate more powers to the FRC. It was recognised that this would shift the original function of the FRC, as an oversight body responsible to ensure the RSBs deliver their regulatory requirements, and as such new governance arrangements for the FRC would have to be introduced to increase the FRC's accountability. It was suggested by one of the respondents that a separate consultation exercise was needed on this issue, which would build consensus at to the appropriate future governance and oversight model for the FRC.

Other issues mentioned by some of the respondents were related to the rotation of auditors and the definition of a Public Interest Entity (PIE), but these were discussed more thoroughly in response to other questions in the consultation.

Q4: In relation to the measures discussed in both this and the next chapter, we would welcome comments on any burdens applied to small and micro-sized companies, and audit firms in particular, by the proposed implementation, which you consider are disproportionate to the wider benefits?

In total 17 responses were received to this question (from 4 RSBs, the 6 largest audit firms, 4 mid-tier firms, 1 investor body and 2 other stakeholders).

The main suggestions to emerge were that:

- Increased regulation of Public Interest Entities (PIEs) would be disproportionately expensive and burdensome for smaller PIEs and smaller auditors of PIEs.
- Government/ FRC should not extend PIE requirements in particular on ethical standards, and on rotation/re-tendering to non-PIEs, for example to companies listed on the Alternative Investment Market of the London Stock Exchange (AIM), particularly small companies in this group.
- There was a disproportionate effect of the mandatory changes to the definition of a PIE for some smaller entities (e.g. some insurers) together with reduced flexibility on inspections of PIEs. This was likely to lead to withdrawal from auditing PIEs by smaller audit firms and increased concentration in the market.

Audits of Public Interest Entities and application of the Regulation and Directive (Q 5-8)

Q5: Do you agree that the Government should not expand the definition of a PIE beyond the EU minimum requirement – that is listed companies, banks, building societies and insurers? Please provide further information in support of your answer?

In total 31 responses were received to this question (from 4 RSBs, the 6 largest audit firms, 4 mid-tier audit firms, 1 corporate rep body, 3 investor bodies and 13 other stakeholders).

There was overall agreement with the Government's suggestion not to expand the definition of a PIE beyond the EU minimum requirements, with 30 respondents agreeing in answer to this question. The main justification for their position was that if the definition of a PIE is expanded, this would be a source of significantly increased costs, administrative burden and complexity for the companies not classified as PIEs previously. What is more, expanding the definition would

also be considered as "gold-plating"[2], which the Government has undertaken to avoid where possible.

Only one respondent argued that the PIE definition should be expanded. According to the respondent, the definition should include public utilities, and providers of public services as well as large charities and commercial entities that are dependent upon publicly funded contracts or grants.

Q6: What issues, if any, do you consider arise from the application of the provisions of the Regulation to audits of PIEs as defined in the Directive? How do you consider these should be addressed?

In total 21 responses were received to this question (from 4 RSBs, 4 of the largest 6 audit firms, 4 mid-tier audit firms, 1 corporate rep body, 1 investor body, and 7 other stakeholders).

The issues raised by the respondents varied.

Concerns were expressed by 10 stakeholders (3 RSBs, 3 of the largest 6 audit firms and 4 other stakeholders) that under the new changes there would be high costs for those companies that are PIEs for the first time. The new companies will face incremental costs in terms of establishing an audit committee, increased administrative burden and complexity, education and training costs.

It was suggested by 7 stakeholders (3 RSBs and 4 of the largest 6 audit firms) that these changes could also have implications for the auditors of these PIEs.

It was argued by 1 stakeholder that UCITS[3] and AIFs[4] should be exempt from the new regulations, as these types of entities are already under quite strict regulatory requirements.

It was suggested by 1 stakeholder that clarification was needed on how these new requirements would apply to audits of consolidated accounts.

Q7: What issues, if any, do you consider arise from the need to broaden the application of the implementation of the 2006 Directive as amended to include:
- **other entities whose securities are admitted to trading on a regulated market;**
- **electronic money institutions;**
- **payment institutions;**
- **MiFiD investment firms;**
- **Undertakings for Collective Investment in Transferable Securities (UCITS); and,**
- **Alternative Investment Funds (AIFs).**

How do you consider these should be addressed?

[2] This is where the implementation of an EU directive in national law applies more widely or includes more additional or more extensive requirements than the Directive requires.

[3] 'Undertakings For The Collective Investment Of Transferable Securities - UCITS', which coordinates the distribution and management of unit trusts amongst countries within the European Union.

[4] Alternative Investment Funds under the Directive 2011/61/EU (often hedge funds and private equity funds).

In total 23 responses were received to this question (from 4 RSBs, the 6 largest audit firms, 4 mid-tier audit firms, 3 investors bodies and 6 other stakeholders).

The responses varied in terms of content, focus and detail.

7 of the respondents (including 1 RSB, 3 of the largest audit firms, 1 Mid-tier audit firms and 2 other stakeholders) agreed with broadening the scope of the 2006 Directive (as amended) and argued that many of the companies that would come under the regulations already operate under strict audit (and non-audit) regulatory requirements, so that this change would not increase the administrative burden and the costs to them.

6 other stakeholders (including 1 RSB, 2 of the largest audit firms, 2 Mid-tier audit firms and 1 other stakeholder) disagreed and stated that the increased scope of the regulations would capture small companies that currently operate under less extensive regulation.

It was argued that MiFiD[5] investment firms, UCITS and AIFs should be exempt or partly exempt from the implementation.

Q8: What do you think are likely to be the familiarisation costs to auditors of PIEs arising from all the changes affecting them in particular:
(a) How many person hours are likely to be involved in an individual statutory auditor and their team understanding and preparing for the changes?
(b) What are the costs to audit firms of updating internal management systems to reflect the changes?
(c) How is this likely to vary by size of audit firm?

In total 10 responses were received to this question. The 6 largest audit firms and 4 mid-tier firms commented. But provided little in the way of quantified information. One estimate suggested that the cost of a PIE audit might increase by 15%; another suggested that the overall implementation costs for the largest firms could be of the order of €60m.

6 of the respondents who commented considered that the impact would be proportionately the greatest for smaller audit firms carrying out a small number of PIE audits, and also for those small PIEs that are outside the existing PIE definition.

Competent authorities- Designation and delegation of tasks (Q 9-17)

Q9: Do you agree the FRC should be the single competent authority with ultimate responsibility for the audit regulatory tasks and for oversight under the 2006 Directive as amended by the new Directive and under the Regulation?

In total 28 responses were received to this question (including from all the RSB's, the 6 largest audit firms, and 4 mid-tier firms).

[5] The Markets in Financial Instruments Directive 2004/39/EC (known as "MiFID").

Overall there were mixed views about whether the FRC should have ultimate responsibility. There was resistance to the FRC from the RSBs, particularly if it was to be the only competent authority.

The Big 6 generally agreed that the FRC should be the single competent authority with ultimate oversight, but that it should focus on PIE audits. There were mixed (and unclear) views about how to empower the RSBs (whether through designation in law as competent authorities or delegation of powers by the FRC - usually to the maximum extent possible). Some of the Big 6 raised concerns about accountability of the FRC as a single competent authority with ultimate responsibility.

The mid-tier audit firms had mixed views, but a tendency towards not wanting the FRC as a single competent authority, suggesting instead the Government should look at multiple competent authority structures (in order to maintain a proportionate and fit for purpose system of regulation).

Investors' representative organisations generally supported the FRC being the single competent authority.

Regardless of the FRC's future role (either as the single competent authority or one of several competent authorities) there was a general consensus that it should focus on PIE audits.

There was a broadly consistent concern about how FRC would use the powers provided to it as the Competent Authority with ultimate responsibility. There was also a general view that it's governance structure ought to be strengthened.

Q10: What issues, if any, do you consider arise from the need to implement a new statutory framework for the setting of auditing standards and for auditing inspections, investigations and discipline by the single competent authority to replace the current framework that requires the bodies' rules to provide for this? If there are any, how should they be addressed?

In total 21 responses were received to this question (including from 4 RSBs, 6 of the largest audit firms, 4 Mid-tier audit firms, 1 corporate representative organisation and 6 other stakeholders).

The RSBs were broadly supportive but warned about the need to review current requirements applied to auditors which could potentially be in conflict with new rules.

The Big 6 were broadly supportive although they warned that such a competent authority would have a lot of power, so care would need to be taken to ensure it was transparent and accountable. They also suggested this could be an opportunity for simplification and reform.

Q11: What issues, if any, do you think might arise for the current investigation and disciplinary arrangements between the professional supervisory bodies and the FRC, that apply to accountants generally as opposed to only auditors, given the changes in relation to audit? If there are any, how should they be addressed?

In total 20 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 4 mid-tier audit firms, 1 corporate body and 5 other stakeholders). The comments and the views of the respondents varied.

The issues raised by the respondents included:

- the scope of the FRC Accountancy disciplinary scheme; and the disciplinary powers it gives to the FRC in relation to non-auditors, and whether these should be restricted to PIEs only or not;
- the FRC's resources and how these would be secured under a revised framework; whether to review the Scheme and Audit Regulatory Sanctions Procedure, and; the fact that Financial Directors of PIEs with professional accounting qualifications are subject to the FRC's disciplinary scheme, but others on the same position and without these professional qualifications are not.

There were contradictory views as to whether the regulations would impact on the arrangements made by letters of exchange between the RSBs and the FRC on oversight of the wider accountancy profession.

Q12: In relation to each of the tasks provided for in the Directive and Regulation, do you consider that responsibility should be allocated to the single competent authority, for it to delegate to the professional supervisory bodies as appropriate and to the extent permitted in the Directive and Regulation?

In total 27 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 4 mid-tier audit firms, 3 investor bodies and 10 other stakeholders), expressing mixed views about the outlined proposal.

11 respondents arguing against the delegation equalled 11 positive replies. Furthermore 4 of the respondents that supported the delegation, did so only in respect of PIEs and argued that the RSBs would be better fitted to be the designated authorities for non-PIE audits.

In general the number of respondents who argued against a delegation framework exceeded the number of positive replies. The RSBs unanimously opposed the delegation, stating that the role of the authority should be to supervise, rather than to delegate. It was emphasised that this delegation of responsibilities would change the structure of accountability and execution, which would be damaging for the UK accountancy bodies and for audit quality and competition.

The general view of the RSBs was that there was no need for a single competent authority in respect of non-PIE audits and RSBs should be designated as competent authorities in their own right, as they considered they were best placed regulate and discipline their members across the full spectrum of their activities. These views were shared by other stakeholders opposing the delegation.

The Big 6 audit firms and some other stakeholder bodies provided responses in support of the delegation framework. Even though the majority of responses supported the delegation of tasks many did so only in respect of tasks relating to audits of PIEs, to the extent this was permitted by the Regulation. For non-PIEs the RSBs were viewed as better suited with the FRC having responsibilities in respect of non-PIE audits only where there was a wider public interest.

Q13: For any tasks where responsibility is allocated to the single competent authority for it to delegate, what limitations, if any, do you consider would be needed to ensure that authority only retained responsibilities or reclaimed delegated responsibilities in appropriate circumstances? What do you consider these circumstances should be?

In total 19 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 4 mid-tier audit firms, 1 investor body and 4 other stakeholders).

Many of the respondents emphasised the role of the FRC ensuring stability of the capital markets and reducing risk. To reduce costs and retain focus, 4 considered tasks relating to non-PIEs should be delegated to RSBs. A further 9 responses suggested that responsibilities should be divided between the RSBs and the FRC in this way, although they did not think this should via a delegation framework. It was suggested that, in either case, clear boundaries should be defined for the powers of the single competent authority (the FRC) following a discussion between FRC, industry representatives, and BIS.

Q14: In relation to each of the tasks provided for in the Directive and Regulation, are there any tasks, or any aspects of those tasks, that you consider it is important should continue to be covered by provisions in legislation on the content of the rules of the supervisory bodies? Please provide further information in support of your answer.

In total 13 responses were received to this question (from 4 RSBs, 4 of the 6 largest audit firms, 2 mid-tier audit firms, and 3 other stakeholders).

All the RSBs were generally against the removal of tasks covered by provisions in legislation on the content of the rules of the supervisory bodies. APA, AAT, Mazars, BDO and Kingston Smith were generally supportive towards the RSBs' views. In contrast, 3 of the big 6 firms and one investor group were supportive of a solely legislative approach.

15: Do you consider that both the registration of statutory auditors and their removal from the register should be covered by regulations under the Companies Act? If so, which body or bodies do you think should have statutory powers for the removal of statutory auditors from the register?

In total 21 responses were received to this question (from 4 RSBs, the 6 largest audit firms, 4 mid-tier audit firms and 7 other stakeholders).

Seven respondents replied negatively to the first part of the question arguing that there is no need for further regulation as there are already existing provisions in legislation. Article 32 (4b) EU Directive and section 1212 of the Companies Act were given as examples.

Six respondents answered positively to the first part of the question.

Most of the stakeholders who replied to this question also provided comments in regards to the second half of the question expressing mixed views. Some argued that the FRC should have statutory powers in relation to PIEs and the RSBs for non-PIEs. One respondent stated that RSBs and FRC should both have powers of removal of statutory auditors from the register. In contrast, 5 stakeholders said that only the RSBs should have statutory powers. Two of the respondents suggested BIS should have such powers.

Q16: Do you consider that, for consistency with a framework of ultimate responsibility, single competent authority approval should be required for the rules of the supervisory bodies?

In total 21 responses were received to this question (from 4 RSBs, the largest 6 audit firms, 4 mid-tier audit firms and 7 other stakeholders).

Ten respondents agreed with the proposal set out in the question and argued that a single competent authority is needed to improve consistency amongst the supervisory bodies, ensure quality and provide certainty of requirements for both auditors and those being audited.

Meanwhile, 11 respondents disagreed with the proposal set out in the question and highlighted that the FRC already has an oversight role set in existing legislation. Moreover, the point was made by one respondent that the EU Directive does not have a provision that requires the single competent authority to approve the rules of the existing supervisory bodies. Therefore, the "RSBs should be able to set their own rules with input from practitioners".

Q17: What do you consider are the costs and benefits in monetary terms and in terms of the effectiveness of audit regulation of the proposals in this chapter and of your preferred approach to implementation of these provisions?

In total 10 responses were received to this question (from 5 of the 6 largest audit firms, 2 mid-tier firms, and 3 other stakeholders).

The preferred approach of respondents was to minimise changes from the current position in order to minimise costs and maintain the existing benefits.

Audit fees and non-audit services (Q 18-26)

Q18: Do you agree that the provisions of Article 4 of the Regulation on the cap on non-audit services should be included in amendments to the FRC's ethical standards for auditors? Please provide information to support your answer.

In total 29 responses were received to this question (including from all the RSBs, 6 of the largest audit firms and 3 mid-tier firms).

Overall respondents were generally supportive of the proposal as most stakeholders felt it was the right thing to do and made sense to have everything in one place for consistency and ease of application.

There were mixed views on the "cap" and how it should be calculated.

Q19: What issues, if any, do you consider arise from the application of the provisions on the cap on non-audit services? If there are any, how do you consider these should be addressed?

In total 26 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 4 mid-tier firms, 6 investor bodies and 6 other stakeholders).

No respondents suggested that the cap on non-audit services should be set at less than 70% of audit fees.

The following other points were made:

- It was suggested the cap could have adverse consequences for competition and costs without comparable benefits; and that implementation should be the minimum required (7: 2 RSBs, 2 Big 6, 1 mid-tier, 1 investor, 1 other).
- It should not, however, be possible to withhold application of the cap for three years each time the audit firm does not provide any non-audit services in a particular year (3: 2 Big 6, 1 investor).
- It is important that the UK should take up the Member State Option to allow a 2 year exemption from the cap in exceptional circumstances.
- There is a need to clarify the way in which the cap is calculated (7: 1 RSB, 3 Big 6, 2 mid-tier, 1 investor).
- There were mixed views on whether the calculation should be based on non-audit services provided to the PIE by just the UK audit firm or by all network firms (or on both bases); however respondents argued that the numerator and denominator should be on a comparable basis (4: 2 Big 6, 1 mid-tier, 1 investor)
- The cap should be restricted to PIEs, as defined in Directive , and not extended for example to AIM companies, or large AIM companies (2 Big 6)
- The cap should apply from year 4 of coming into force or from the company becoming a PIE (1 Big 6, 1 mid-tier).
- There needs to be a broad interpretation of "required by Union or national legislation", so that for example it is clear that it extends to services required by regulators such as PRA or FCA. (1 Big 6, 1 mid-tier, 1 investor).
- There is no wish for a cap set with a threshold that is more restrictive than the 70% default.

Q20: Do you agree that the Member State options in Article 4, to set more stringent requirements on the cap and on the auditor's independence where their total fee income from a PIE exceeds 15% of their total fee income overall, should be capable of being applied by the FRC in its ethical standards for auditors? Please provide information to support your answer.

In total 27 responses were received to this question (from 4 RSBs, the 6 largest audit firms, 4 mid-tier firms, 7 investor bodies and 6 other stakeholders).

19 of these (4 RSBs, 4 Big 6, 3 mid-tier, 5 investors and 3 others) support use of the Member State Option, in most cases either because-

- it is needed in order to retain more restrictive elements in FRC's existing ethical standards, particularly on the percentage of total fee income (12 respondents: 4 RSB, 3 Big 6, 2 mid-tier, 1 investor, 2 others); or
- the FRC should have the ability to set tighter restrictions in the future, if that is judged necessary (5 respondents: 1 Big 6, 1 mid-tier, 3 investors).

7 respondents opposed use of the Member State Option (1 Big 6, 1 mid-tier, 2 investors, 3 others), though 2 of these also argued for retention of existing restrictions in ethical standards (which would require some use of the Member State Option). Those opposed to using the Member State Option argued either generally for maximum deregulation or against any regulatory measures that could restrict the choice of auditor.

Q21: Do you agree that the FRC should have the ability to exempt an audit firm from the 70% cap for up to two financial years on an exceptional basis and on application by the firm?

In total 27 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 4 mid-tier firms, 6 investor bodies and 7 other stakeholders).

All agreed that the FRC should have the ability to exempt a firm for up to two years from the 70% cap on a case by case basis.

The main reason given for this was that without this flexibility there would be cases where it was highly desirable or necessary for the auditor to carry out work that might be caught by the cap and it was in the public interest to give the competent authority this responsibility. Examples given were unanticipated due diligence work, reporting accountant work and merger related work.

However, a number of respondents sounded a note of caution, emphasising that this provision should be for genuinely exceptional cases and should not be available routinely (3mid tier, 2 investors, 1 other)

Other points made were:

- The FRC should establish principles and give guidance.
- Request should be made by, or supported by the Audit Committee.
- The granting of the exemption should be disclosed in the company's annual report.
- There was broad agreement that the UK should give effect to this Member state option and that the FRC should be given this ability, though a number of respondents emphasised that the granting of exemptions should be restricted to genuinely exceptional cases.

Q22: Do you agree that the subject matter of Article 5 of the Regulation on the blacklist of non-audit services, including the possibility of setting more stringent requirements, should be included in amendments to the FRC's ethical standards for auditors? Please provide information to support your answer.

In total 29 responses were received to this question (including from 4 RSBs, 6 of the largest audit firms, and 3 mid-tier firms).

There was general support for the proposal in the question, with only three respondents (a corporate and two others) objecting to the FRC being able to set more stringent requirements than the Regulation where necessary. However three "other" stakeholders disagreed with the inclusion of the requirements of the Regulation in the ethical standards at-all. Of the respondents

who supported the proposal, 18 expressed concern about some of the more stringent requirements that they understood FRC was considering (3 RSBs, 4 of the Big 6 audit firms, 3 mid-tier audit firms, 2 corporates, 2 investors and 4 others).

Q23: What issues, if any, do you consider arise from the application of the provisions on the blacklist of non-audit services? If there are any, how do you consider these should be addressed?

In total 22 responses were received to this question (including from 4 RSBs, the 6 largest audit firms, and 3 mid-tier firms).

7 respondents raised concerns about the clarity of the requirements for PIEs and their auditors (2 RSBs, 2 Big 6 audit firms, 2 mid-tier audit firms one corporate representative). 6 respondents (2 RSBs, 3 Big 6 audit firms, the APA representing mid-tier firms and one other stakeholder) raised concerns about the timing of the introduction of the requirements.

For some blacklisted services it appeared that an auditor might not be able to take up an appointment for an accounting year beginning after the application date because of services they had provided in their previous accounting year.

3 respondents were concerned about the regulatory burden of the blacklist on smaller PIEs that might, for reasons of convenience, have obtained a range of non-audit services from their auditor (1 RSB, one investor and one other stakeholder).

Q24: Do you agree that implementation of the revised requirements on ensuring and documenting auditor independence in the 2006 Directive should be implemented primarily via the ethical standards, with amendments to the existing legislation as necessary only to:
(a) underpin the standards? And,
(b) introduce simplifications for audits of small non-PIEs?
Please provide further information to support your answer.

In total 22 responses were received to this question (from 4 RSBs, the 6 largest audit firms, 4 mid-tier firms, 4 investor bodies, and 4 other stakeholders).

- All agreed that the changes required by the Directive should be given effect through changes to FRC Ethical Standards, with legislation providing any necessary underpinning. A number stressed the importance of keeping the requirements on auditor independence in one place.

- 9 respondents (4 RSBs, 4 Big 6, 1 investor) commented specifically in favour of introducing more simplifications in relation to small non-PIE audits, with no one arguing the contrary. However, one of these responses noted that it was important to retain the essential nature of an audit regardless of size.

Q25: Do you agree that the existing framework on disclosure by PIEs in notes to their accounts of the audit and non-audit fees they paid their auditor should be adapted, to ensure public disclosure of the information the auditor is required to provide to the competent authority under Article 14 of the Regulation? Please provide information to support your answer.

In total 30 responses were received to this question (from 4 RSBs, the 6 largest audit firms, 3 mid-tier firms, 2 corporate bodies, 2 investor bodies, and 13 other stakeholders).

22 were in agreement with the proposal in the question (2 RSBs, 5 of the big 6 audit firms, 4 mid-tier audit firms, 1 corporate rep body, 2 investor bodies and 8 other stakeholders).

5 stated they did not agree with the proposal in the question (1 corporate rep body and 4 other stakeholders).

3 stakeholders did not provide a clear preference about whether they were in agreement or disagreement with the proposal in the question.

Q26: For our impact assessment on the changes we would welcome any estimates that could be provided on:
(a) the percentage of non-audit services that are likely no longer to be provided by auditors due to their inclusion on the blacklist?
(b) the additional costs associated with reallocating some of the non-audit services that would otherwise have been provided by the same statutory auditor?
(c) the extent to which these additional costs vary by the size of PIEs?
(d) the person hours likely to be involved in a non-audit team at an audit firm understanding and preparing for the changes given that they will not be able to provide certain non-audit services to the firm's audit clients?

In total 13 responses were received to this question (from 1 RSB, the 6 largest audit firms, 4 mid-tier audit firms, and 2 other stakeholders).

Responses suggested that the costs of re-allocating non-audit services would be high both to audit firms and their clients. However, opinion on how much of current non-audit services would need to be reallocated seemed mixed. There seemed to be agreement that the costs would not reduce with size of the PIE, making the costs disproportionately high on smaller PIEs. Opinion was mixed on whether the familiarisation and implementation costs of this change would be substantial.

Tendering and duration of audit engagement (Q27-34)

Q 27: Audit Committees must submit a recommendation to the board for the appointment of an auditor. However, under Article 16(1) sub-paragraph (2) of the Regulation, this does not apply where the Member State has provided an alternative system for the appointment of the auditor. The current alternative systems set out in the Companies Act 2006 are where:

- **the directors appoint the auditor before the company's first accounts meeting;**
- **the directors appoint the auditor to fill a casual vacancy in the office of auditor; and where,**
- **the Secretary of State appoints the auditor because a public company failed to do so.**

Do you consider that all of these alternative systems for the appointment of an auditor should continue to operate in the UK as they do at present? Are there any other systems that should also be provided for on the grounds that a competitive tender process is not appropriate? Please provide further information to support your answer.

In total 25 responses were received to this question (including from 4 RSBs, the 6 largest audit firms, and 4 mid-tier firms).

All respondents agreed that the current system should continue to operate, though they did not suggest any new systems that should be introduced.

3 respondents (a mid-tier audit firm, an investor body, and another stakeholder) suggested actions that might be taken on the availability of these alternatives such as requiring audit committee approval or reporting of reasons, or the amendments to the Companies Act to remove these.

Q28: Where the PIE is exempted from having an audit committee (e.g. because it is an unlisted bank), there is no provision as to which body should fulfil the audit committee's role. Do you agree that in this situation the directors should determine the recommendations that should be put to shareholders of the audited entity? Please provide information in support of your answer.

In total 18 responses were received to this question (including from 4 RSBs, the 6 largest audit firms, and 4 mid-tier firms).

Most respondents agreed that if the PIE is exempted from having an audit committee, then directors should determine the recommendations to shareholders. Several respondents (mostly mid-tier audit firms) suggested that they would expect unlisted PIEs to have audit committees as a matter of good practice.

Q29: The Government does not intend to take up the option to provide for an extension of the maximum duration of the engagement beyond 10 years where a joint auditor is engaged. Do you agree that the replacement of a single auditor with two joint auditors, one of whom was the original auditor, should be made on the basis of a retender? Please provide further information in support of your answer.

In total 27 responses were received to this question (from 4 RSBs, the 6 largest audit firms, 4 mid-tier audit firms, 2 investor bodies and 11 other stakeholders).

Almost all of the respondents thought this question was divided in two parts: one related to the Government's decision not to extend the duration of the engagement for joint audits and the second part related to the issue of retendering. This was reflected in their answers and many expressed separate viewpoints to each part of the question.

4 of the respondents disagreed with and questioned the Government's intention not to expand the maximum duration of a joint audit engagement. Their main arguments were that this was not making full use of an available flexibility under the Regulation; it was suggested that, though joint audits are rare in the UK, this might change in the future; and that joint audits were considered to be a good way to improve competition by engaging more providers in the market for PIE audits.

On the other hand, 6 respondents supported the Government's proposal arguing that: this would retain the policy of neutrality between joint audits and single audits. They also considered that it would improve audit quality as audit firms would not be able to establish long-lasting relationships with the management of client companies.

Regarding the second part of the question, 14 respondents expressed mixed views. Most of the stakeholders agreed that the replacement of a single auditor with two joint auditors, one of whom was the original auditor, should be made on the basis of a retender. In contrast, 4 stakeholders disagreed with the proposal that a tender should automatically result from the decision to appoint a joint auditor. They thought the audit committee should go through some form of a process to decide on the second auditor.

Q30: We are considering whether provision should be made so that, where a PIE has stated in its annual report it will appoint an auditor based on a tender process before the expiry of the maximum duration of 10 years, it should still be able to take advantage of an extension of the maximum duration beyond ten years, following that tender. Do you agree?

In total 30 responses were received to this question (including form 4 RSBs, the largest 6 audit firms, and 3 mid-tier firms).

29 stakeholders were generally supportive of the idea, though 1 RSB disagreed as it did not support the extension of the maximum duration. This RSB and another RSB, as well as one big 6 audit firm, were concerned about the binding nature of the statement of intention to tender and the possibility of sanctions if the tender was then delayed or brought forward.

Q31: We are seeking views on the proposal that for companies that are PIEs the company's plans on retendering should be part of a new element of the annual report setting out key matters for the audit committee on the appointment of auditors. Do you agree that the report should include:

a) when the current auditor took up the audit engagement at that company? (Yes / No)
b) when the audit engagement was last retendered? (Yes / No)
c) the start of the next accounting year in relation to which the company expects that the auditor appointment will be based on a tender? (Yes / No)
d) the directors' reasons for considering that the proposed year is in the best interests of the company's members? (Yes / No)

Do you consider that any other information should be included in addition the above? Please provide further information to support your answer.

In total 28 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 3 mid-tier firms, 2 corporate bodies and 3 investor bodies and 10 other stakeholders).

10 respondents agreed with including information on all the points in companies' annual reports, arguing that this would increase the transparency of the reports, thus making them more useful to the stakeholders of a company. However 12 respondents disagreed with points (c) and/or (d) stating that this would result in "boiler plating".

The Government was encouraged to engage with shareholders and audit committees a suitable period of time after making the new regulations, to assess whether stakeholders found the new information included in annual reports useful.

Q32: We are considering whether, where the statement under point (c) above is included in the company's annual report, and the incumbent auditor is reappointed on the basis of the planned tender process before the expiry of the 10 year maximum duration (eg at 7 years), the next tender process should be expected to take effect:

(a) after the same period has expired again (ie year 14 in this example);
(b) after a further 10 years has expired (ie year 17 in this example); or,
(c) after the same period has expired again, though with the potential to extend it by the full 10 years via further notice from the audit committee in the annual report (ie in this example at year 14 though this could be extended to year 17)?

Which option would you prefer? Please provide further information in support of your answer.

In total 28 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 3 mid-tier firms, 2 corporate bodies, 3 investor bodies and 10 other stakeholders).

27 respondents supported option (b) as it provided the greatest flexibility. A company could conduct a retender process up to 10 years after the appointment, as specified in the Directive. However, if a company believed it was in its interests to have an earlier retender process, it would be allowed to do so without this having an impact on the next tender period.

One respondent supported option (c) arguing that it gave the audit committee discretion on a longer duration between tenders than it had applied previously.

Q33: What issues, if any do you consider arise from the UK's obligation to apply effective, proportionate and dissuasive sanctions for failure to comply with the UK's implementation of the framework on mandatory rotation and retendering? If there are any such issues, how should they be addressed?

In total 30 responses were received to this question (including form 4 RSBs and 6 of the largest audit firms).

A number common themes emerged (in addition to more detailed comments). In summary, it was suggested:

- Responsibility for compliance should rest jointly with the PIE and the auditor.
- There was a need to ensure that sanctions do not give rise to unintended consequences for shareholders where the breach may be minor and/or unintentional.
- The sanctions should be proportionate and reasonable with flexibility to remedy the breach within an established timeframe.

Q34: For our impact assessment on the changes we would welcome any estimates that could be provided on:
(a) resources that are likely to be deployed by PIEs to tender audit appointments?
(b) resources that are deployed by auditors to tender for audit work?
(c) additional familiarisation costs that arise for both auditors and the audit client when a new auditor takes up an audit engagement?
(d) the extent to which this varies by the size of the PIE?

In total 19 responses were received to this question (including from 2 RSBs and 6 of the largest audit firms).

The main message from all respondents was that the costs would be significant and would affect smaller PIEs disproportionately. Most respondents noted that the cost to both auditors and PIEs would vary more with the complexity of a PIE (rather than its size). 5 respondents noted the significance of the additional familiarisation costs that would arise when a new auditor took up an audit engagement.

8 responses made reference to previous research by the Competition and Markets Authority (CMA).

Audit Reporting and additional reporting to the audit committee (Q35-40)

Q35: What issues, if any, do you consider arise from the inclusion in legislation on audit reporting of a requirement for the auditor to include a statement in the audit report where there is a material uncertainty relating to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern? How do you consider these should be addressed?

In total 22 responses were received to this question (from 4 RSBs, 10 audit firms, and 8 other stakeholders). There were no strong differences of view by type of stakeholder.

Overall there was strong support for not providing expressly for such a statement in legislation, leaving this to be implemented through FRC auditing standards, unless Government considered that explicit provision in law was necessary for effective implementation.

Q36: Do you agree that the provisions of Article 10 of the Regulation on the audit report should be included in amendments to the FRC's International Standards for Auditing (UK and Ireland)? Please provide information to support your answer.

In total 22 responses were received to this question (from 4 RSBs, 10 audit firms, and 8 other stakeholders).

All respondents agreed that implementation of the requirements should be through FRC standards.

Q37: What issues, if any, do you consider arise from the application of the provisions of the Regulation on the audit report? If there are any, how do you consider they should be addressed?

In total 20 responses were received to this question (from 4 RSBs, 10 audit firms, and 6 other stakeholders).

10 respondents do not foresee significant issues arising from the application of the audit report provisions (2 RSBs, 3 audit firms, 3 investors or investor representative bodies, and 2 others).

The remaining 10 respondents (2 RSBs, the 6 largest audit firms and one other audit firm, and 1 other stakeholder) noted that there will be additional requirements applying to new entities

(caught by the PIE definition) who are unlikely to have experienced extended auditor reporting requirements previously. One Big 6 audit firm (Grant Thornton) believed significant costs will arise as a result of the provisions where PIEs had not previously been subject to extended auditor reporting requirements in the UK.

Q38: Do you agree that the provisions in Article 11 of the Regulation on the additional report to the audit committee should be included in amendments to the FRC's International Standards for Auditing (UK and Ireland)? Please provide information to support your answer.

In total 25 responses were received to this question (from 4 RSBs, 10 audit firms, and 11 other stakeholders). The majority of the responses agreed (or implied that they agreed) that the provisions should be included in the auditing standards, as a "one-stop-shop" of auditing requirements.

Two RSBs and one audit firm requested consideration to be given to not including the requirements in the auditing standards but instead including them as an appendix or by cross-reference to guidance.

One audit firm did not think that BIS should implement the option to allow the FRC to add to the content of the additional report to the audit committee in its standards at this time as the market should be given time to allow the requirements to bed in.

Overall, the responses supported the provisions of the Regulation being incorporated into the auditing standards.

Q39: What issues, if any, do you consider arise from the application of the provisions of Article 11 of the Regulation on the additional report to the audit committee? If there are any how should they be addressed?

In total 20 responses were received to this question (from 4 RSBs, 10 audit firms, and 6 other stakeholders). There were no strong differences of view by type of stakeholder.

Overall, only limited issues were listed as arising from the requirement for auditors to provide an additional report to the audit committee. However, clarification and guidance would be welcomed.

The additional reporting requirements were considered by most to be useful where they added value, but concerns were expressed about insufficient flexibility of requirements. It was felt this might lead to boiler-plate language or obscure more important issues to be reported. One example given was the requirement to describe the audit methodology. The requirement to report on significant deficiencies in internal control also caused concern. One response (representing the corporate sector) suggested that the focus of auditor reporting should be on those issues which have the greatest potential to result in material misstatements and questioned the value of providing a broad summary of information e.g. for the purposes of the going concern assessment.

Q40: For our impact assessment on the changes, we should particularly welcome data on:
(a) additional resources are likely to be needed by the auditor to produce the additional report for the audit committee?
(b) the additional annual cost of the audit committee considering the additional report?
(c) how these costs vary by size of PIE?

In total 16 responses were received to this question (from 1 RSB, 6 of the largest audit firms, 3 mid-tier firms, 2 corporate rep bodies, and 4 other stakeholders).

Generally the responses anticipated additional costs of the report to the audit committee but these were not considered to be significant overall. They were expected to be disproportionately high for smaller PIEs.

Further consultation- The small companies audit exemption thresholds (Q41)

Q41: Do you consider that the small companies audit exemption thresholds should:
(a) remain aligned with those for the small companies accounting regime, so that the number of audit exempt small companies will increase in line with the increase in the small companies accounting thresholds;
(b) remain unchanged so that the turnover and balance sheet thresholds are considerably lower than the thresholds for access to the small companies accounting regime; or,
(c) be amended in some other way (please set this out)?
Please provide further information in support of your answer.

In total 25 responses were received to this question (from 4 RSBs, 5 of the 6 largest audit firms, 4 mid-tier firms, and 12 other stakeholders).

Of these, 9 responses supported the continued alignment of the audit exemption thresholds with those for the small companies accounting regime. These were from one RSB, 3 Big 6 audit firms, one investor, one corporate, one other representative body and 2 small audit firms.

Among the 13 respondents that were not supportive of allowing the small companies audit exemption thresholds to increase in line with the small companies accounting thresholds, a number of common messages emerged:

- Concerns about potential adverse impacts on local economies that would result from raising the audit exemption thresholds (for instance, because a business with a £7m turnover will be a very significant size in relation to a local community and an employer in that community).

- Concerns that increasing the thresholds for audit purposes will lead to fewer smaller audit firms remaining in that market, leading to less competition, higher costs, and a contraction in the capacity to train Individuals with a view them becoming eligible for appointment as statutory auditors.

- Increasing the audit thresholds at a time of significant financial reporting changes means that there will be less policing of the correct adoption of accounting standards.

- Differing views on whether small companies that are part of larger groups should qualify for the audit exemption, with 1 Big 6 firm supporting this and another arguing that the existing safeguard requiring these companies to be audited (unless they have parent company guarantees) must be maintained.

- 1 RSB, 1 Big 6 audit firm, one mid-tier audit firm and two other representative bodies stated that a fuller more detailed consultation is required (presumably before the current increase in the audit exemption thresholds takes effect).

These 13 responses were from 2 RSBs, 1 Big 6 audit firm, 4 mid-tier audit firms, 2 smaller audit firms, 3 representative bodies and an individual.

One other individual supported option (c) while one audit firm and one RSB provided more discursive responses that did not express a clear preferred option.

The proposals- Other Changes (Q42-43)

Q42: What issues, if any, do you consider arise from the measures considered in this chapter? If there are any, how do you consider these should be addressed?

In total 4 responses were received to this question (from 2 RSBs and 2 of the largest 6 audit firms). Mostly these commented in relation to Section 5.10 (Competent authorities – Investigations, sanctions and powers).These varied with two respondents (an RSB and a big 6 audit firm) suggesting that sanctions should apply under the framework in areas already covered by criminal law. Another respondent (an RSB) raised concerns about changes to the audit inspections framework. Finally, another respondent (a big 6 audit firm) raised concerns about transfers of papers in a group audit and about recognition of EEA auditors as it wished to encourage more transfer of personal records across EU borders.

Q43: For our Impact Assessment, we would welcome any information you can provide on the expected costs and benefits of the measures considered in this chapter.

In total 10 responses were received to this question (from 3 RSBs and 7 audit firms). However 8 said that either they had no relevant information or that it was not possible to quantify costs or benefits in a meaningful way, or point to possible sources of information.

The answers to this question underlined the difficulties respondents had in assessing impact in terms of quantified information.

Technical Standards for statutory audits (Q44-47)

Q44: Do you agree that the implementation of EU requirements on technical standards should be primarily through changes to the FRC's ISAs (UK and Ireland)? Please provide further information in support of your answer.

In total 23 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 4 mid-tier firms, 1 investor body, and 8 other stakeholders). All respondents agreed that the technical standards should be implemented via the FRC's ISAs.

There was general overall agreement that the implementation of EU requirements on technical standards should be primarily through the FRC's International Standards for Auditing (UK and Ireland). Respondents also emphasised the importance of avoiding changes beyond those needed.

Q45: For the purpose of our impact assessment on the changes we would welcome and estimate you can provide of the percentage of PIE audits for which the quality control review will now have to be undertaken by an individual auditor from outside the appointed audit firm (where there is a lack of detachment from the audit or knowledge of the client sector) where this was not previously required?

In total 14 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, and 4 mid-tier firms).

7 either noted that they had no relevant information or that this did not impact their organisation. 6 respondents said that they did not have any data but did not expect that the number of firms that would need to appoint a reviewer from outside the firm would be significant. Several respondents commented that the impact would be greater were the definition of a PIE to be expanded beyond the minimum set out in the Directive.

Technical standards- International auditing standards

Q46: What issues do you consider arise from the implementation of EU adopted ISAs in the UK that UK representatives should raise with the European Commission?

In total 14 responses were received to this question (including from 3 RSBs, 5 of the largest audit firms, and 3 mid-tier firms).

It was noted the UK should monitor developments and engage with the institutions of the European Union as appropriate. Where there were concerns in Europe, it should be for interested parties to lobby the IAASB[6] for changes to the ISAs[7].

There was support from the Big 6 for uniform application of ISA's throughput the EU. They considered that 'carve outs' from the ISAs as issued by the IAASB should be avoided.

It was mentioned that it would be a backward step for the EU to amend ISAs bringing about inconsistency in their international application.

It was noted that ISAs should be applied proportionately and Member States should have the option of refining them to meet local statutory requirements.

[6] International Auditing and Assurance Standards Board (IAASB)

[7] International Standards on Auditing (ISAs)

Q47: Do you agree that following any adoption of ISAs by the European Commission, the FRC should have the discretion to:
(a) apply standards where the Commission has not adopted an ISA covering the same subject-matter; (Yes / No) and,
(b) impose procedures or requirements in addition to adopted ISAs if these national procedures or requirements are necessary to give effect to national legal requirements or to add to the quality of financial statements? (Yes / No)
Please provide further information in support of your answer.

In total 18 responses were received to this question (including from 3 RSBs, 4 of the largest audit firms, and 3 mid-tier firms).

Nearly all respondents agreed (a) should be an option for the FRC. All respondents agreed that (b) should be permissible for the FRC.

Audit committees (Q48-50)

Q48: What issues, if any, do you consider arise from the implementation of the new requirements on audit committees via amendments to the existing DTR 7.1 in the FCA Handbook (for companies with securities admitted to trading on a regulated market)?

In total 19 responses were received to this question (from 4 RSBs, 8 audit firms, and 7 other stakeholders). There were no strong differences of view by type of stakeholder.

Overall there was strong support for the proposed implementation method. However there was concern that clarification was needed on what was necessary for an audit committee member to be independent and for the committee as a whole to have knowledge of the sector of the PIE.

Q49: What issues, if any, would you consider arise from the implementation via provisions in PRA rules of the new requirements on audit committees for those banks, building societies and insurers that are not required to have an audit committee under DTR 7.1?

In total 17 responses were received to this question (from 4 RSBs, 8 audit firms, and 5 other stakeholders). There were no strong differences of view by type of stakeholder.

Respondents in general did not see significant issues arising from use of the PRA rules. Indeed many respondents believed Audit Committees would already be in place for the majority of firms that would be captured. However, some thought special transition arrangements might be useful.

One respondent noted that these requirements would place a disproportionate burden (due to limited resources and finance) on mutuals and other unlisted insurers, such that every effort should be made to reduce the effects.

Overall there was strong support for the proposed change through it was felt this should be done on a proportional basis.

Q50: For our impact assessment on the changes, we would welcome data on:
(a) the numbers of non-listed PIEs that currently do not have an audit committee?
(b) the cost of recruiting members to be part of an audit committee?
(c) the annual cost of attendance of a member?
(d) the auditor's fees for attending audit committee meetings?
(e) how these costs vary by size of PIE?

In total 9 responses were received to this question (from 1 RSB, 5 of the largest 6 audit firms, 2 mid-tier firms and 1 other stakeholder). However, not all of the sub-questions were covered by the respondents.

Those respondents who commented considered that unlisted banks and non-listed PIEs would already have audit committees. They considered that the costs of recruiting members to be part of the audit committee would vary depending on the nature and size of the company: For companies at the lower end of FTSE 250 it was suggested that the following annual attendance costs applied: £40,000- non-executive directors fees, £5,000- members of the audit committee, and £10,000 for the audit committee chair. It was suggested that the auditors fees for attending audit committee meetings varied between £3,000 and £7,000; and finally, that those costs were fixed and would affect smaller PIEs disproportionately.

Regulatory reporting and information- Report to supervisors of PIEs (Q51-52)

Q51: Do you consider that the single competent authority with responsibility for regulation of audit should be designated to receive the information required to be provided to supervisors of PIEs when it is provided to:
(a) the PRA for banks, building societies and insurers?
(b) the FCA for other PIEs?
(c) or both?

In total 20 responses were received to this question (from 4 RSBs, 6 of the largest audit firms, 3 mid-tier audit firms, and 7 other stakeholders). The views varied.

13 respondents agreed with the proposal that FRC as the single competent authority should receive the information, which PIEs provide to their supervisors (the PRA and the FCA) as this information would improve audit quality and practice. However, to avoid additional complication and "gold-plating" it was emphasised that a system between the FRC and the PRA[8]/FCA[9] should be established which would enable the supervisors to share the necessary information with the FRC as appropriate. Some of the other respondents disagreed with this view and argued that this information could be sensitive to PIEs and would not have any implications on the quality of audit services.

[8] Prudential Regulation Authority

[9] Financial Conduct Authority

Q52: For the purpose of our impact assessment on these changes we should be grateful for any estimates you can provide of:
(a) the costs of the auditor providing this information to supervisors of PIEs?
(b) the frequency with which the PRA is provided with this information for banks building societies and insurers under existing requirements?
(c) the frequency with which the FCA is provided with this information for other PIEs in practice already?

In total 10 responses were received to this question (from the 6 largest audit firms and 4 mid-tier firms).

On (a) – the costs to the auditors of providing this information – 5 audit firms did not expect significant additional costs, whilst one firm considered that the costs were likely to be significant. 4 audit firms said they had no information or it was not possible to provide meaningful estimates.

Only 3 firms comment specifically on (b) – the frequency with which the PRA is provided with this information for banks, building societies and insurers – suggesting that frequency varies according to the risk associated with the institution in question, but is at least annually.

Only 2 firms commented specifically on (c) – the frequency with which the FCA is provided with this information for other PIEs – suggesting that interaction with the FCA is much lower.

Recognition of statutory auditors from another Member State (Q53-54)

Q53: Do you agree that we should enable the single competent authority to exercise the choices of aptitude test and/or adaptation period for the approval in the UK of individual statutory auditors from other Member States? Please provide further information in support of your answer.

In total 14 responses were received to this question (from 3 RSBs, 5 of the largest 6 audit firms, 4 mid-tier firms, and 2 other stakeholders).

The 14 respondents were generally against the idea of the single competent authority having the authority to determine the type or level of aptitude test or adaptation period.

The RSBs believed that the recognised professional bodies should retain the right to insist on applicants passing an aptitude test.

Q54: Were the single competent authority to have this role, what do you consider would be the implications for the operational provision (currently by the professional supervisory bodies) of:
(a) aptitude tests; and
(b) adaptation periods (if these were to be provided for)?
How would this be affected by the CEAOB progressing discussions "with a view to achieving a convergence of the requirements of the adaptation period and the aptitude test" across the EU?

In total 13 responses were received to this question (from 3 RSBs, 5 of the largest 6 audit firms, 3 mid-tier firms, and 2 other stakeholders).

The general consensus from the stakeholders that responded to the question was that this role should not be delegated to FRC. However, if FRC were to be the single competent authority, then operational responsibilities should be delegated to the RSBs. This was because:

- the RSBs already had experience in that area;
- it would have significant cost implications for FRC and;
- would cause unnecessary complication to the system already in place.

4. Questions 37-41 from the consultation on the Accounting Directive

Q37: Do you agree that the regulations should be amended to revoke the current requirement for disclosure of fees paid to auditors of small to medium sized companies for non-audit services?

In total 24 respondents provided answers to this question expressing mixed views: 11 answered "Yes", ten answered "No" and three were "Not sure" on their position. However, only 15 respondents provided additional comments to justify their position.

Many of the respondents that answered positively recognised that the Accounting Directive and the auditor remuneration regulations[10] do not require small or medium size companies to disclose fees paid to auditors for non-audit services. Several respondents argued that this information is not necessary unless a company is part of an ineligible group; it is excluded from the medium-sized company exemption for accounting purposes; or it is a public company.

However, the respondents that disagreed argued that the disclosure of this type of information would improve the transparency of accounts and it should therefore be required.

Note: Since the close of the consultation on the Accounting Directive and during the process of implementing the remainder of its requirements the Government has concluded that it also requires the revocation requirement for small companies to disclose the audit fee they have paid their auditor as this would otherwise be an additional note to the accounts, which is not permitted for individual accounts of small companies.

Q38: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to public companies unless they have securities traded on a regulated market?

[10] The Companies (Disclosure of Auditor Remuneration and Liabilities (SI 2008/ 489) Limitation Agreements) Regulations 2008) as amended by the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011 (SI 2011/ 2198)

In total, 24 respondents provided answers to this question, 14 of which expressed negative views, seven answered positively and three were “Not sure” on their position. The rationale behind these responses varied.

The majority of respondents rejected the proposal outlined in the question. Some of the respondents agreed that all publicly traded companies should disclose fees paid to auditors for non-audit services. Others disagreed and stated that all public companies should do so. A few argued that the requirement to disclose should be dependent only on whether a company is a PIE or not, and not its size.

Q39: Do you agree that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should no longer be extended to companies in the same group as a public company?

In total 24 responses were provided to this question with 11 respondents answering “Yes”; ten respondents answering “No” and three respondents providing “Not sure” answers. The stakeholders expressed different views to justify their position.

The arguments provided varied but in general all those who responded positively agreed that companies in the same group as a public company need not be required to disclose information on fees paid to auditors for non-audit servicers. However they agreed this exemption should be applicable only if this information is provided in the group’s consolidated financial statements or the company itself isn’t a public company, a PIE or a parent of a PIE.

A few of the respondents who disagreed with the question commented that such information should be disclosed because it will lead to greater transparency.

Q40: Do you consider that the current requirement for disclosure by large companies of fees they have paid to auditors for non-audit services should continue to be extended to medium sized and small companies that are members of ineligible groups?

In total 24 responses were provided in answer to this question, 11 of which answered positively, ten answered negatively and three provided “Not sure” answers.

Mixed views were expressed in answer to the question.

Most of the respondents who agreed with the proposal in the question, believed that all entities that are part of an ineligible group should disclose information on the fees paid to auditors for non-audit services. As an alternative the suggestion was made that only a company which is a PIE or a parent of a PIE should disclose such information.

Several respondents who disagreed supported the view that small and medium sized companies which are part of an ineligible group should be exempt from disclosing such information. However, a comment was made that, if the information is going to increase the level of transparency, then it should be disclosed.

Q41: Do you:
(a) agree that the regulation should be amended so that the current exemption from the disclosure of non-audit fees paid by subsidiaries is no longer available to a subsidiary whose auditor is not the group auditor; or
(b) think the exemption should be available to these subsidiaries where the total non-audit service fees paid to their auditor by all the companies in the group is disclosed in the notes to the consolidated accounts?

In total 24 responses were received for this question. The number of respondents who supported option (a) was 13 in comparison to five that supported option (b); five were "Not sure" and 1 rejected both options altogether.

The majority of respondents supported option (a). Their overall views were that option (b) would involve complexity in preparing consolidated accounts and option (a) will increase the transparency of reporting and demonstrate auditor independence.

Only a few respondents supported option (b). Their comments were that if option (a) is applied this might impact competition and choice; and if option (b) is implemented users of financial accounts will have access to useful information which might be lost otherwise.

Several respondents gave a "Not sure" response. According to one respondent, the individual subsidiary accounts should be stand alone.

Finally, one respondent rejected both options altogether stating that disclosure of such information should depend on whether a subsidiary is a PIE or not.

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