Consultation on the technical legislative implementation of the EU Audit Directive and Regulation

ICAEW welcomes the opportunity to comment on the *Consultation on the technical legislative implementation of the EU Audit Directive and Regulation* published by Department for Business Innovation & Skills on 2 November 2015, a copy of which is available from this link.

In view of the short exposure period for this consultation, our response reflects a more restricted consultation within ICAEW than would normally be the case.

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MAJOR POINTS

1. We welcome the BIS consultation on the implementation of the EU Audit Regulation and Directive (ARD). This consultation is the culmination of lengthy negotiations in Brussels and the UK in which ICAEW was extensively involved. The objective should now be to ensure that, at a practical level, the implementation of the ARD reflects the agreements that were reached during these negotiations. To that end we welcomed assurances from Government in November that the implementation process would 'retain as much existing flexibility as possible to benefit the UK business environment' and that in this regard the FRC should 'delegate to existing professional bodies where possible'[1].

2. On the whole we consider that the consultation paper (CP) sets out the issues well. To a large extent, the ARD mandate provisions with relatively little flexibility. However we do have some comments on the areas where there is room for flexibility or on matters of interpretation, or enhancing clarity, which we set out below.

3. Our concerns relate primarily to the implementation of the new audit regulatory framework and a desire to ensure that the Financial Reporting Council (FRC) should be able to focus on the systemic risks that a single competent authority should be concentrating on, while the Recognised Supervisory Bodies (RSBs) should have sufficient certainly to be able to fulfil their role effectively and efficiently.

4. We note the ministerial statement in July, which set out that the FRC would become the single competent authority, but on the basis that all matters which could be delegated to the RSBs, should be. Given the importance of this, we are concerned that the requirement is not specified in legislation, a point we address in more detail below.

5. We also have particular concerns in respect of: the framework for the FRC's process for reclaiming tasks from RSBs; the potential over-flexibility in the use of 'public interest' criteria; a number of interpretational issues around the allocation of investigation and discipline roles; and the procedures for recognition of statutory auditors from another Member State. Again we go into more detail below.

6. We particularly value the efforts BIS have made to engage with the RSBs throughout this process: we have not necessarily repeated in this response, all detailed points made in our separate meetings with BIS, but will be very pleased to continue engagement, and discuss any points further.

7. The UK accounting sector remains world leading. It underpins confidence in capital markets and helps ensure our overall competitiveness as an economy. The yardstick for the effective implementation of the ARD is that this continues to be the case going forward.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you agree with the approach the draft implementing regulations take given the Government's conclusions as set out in these chapters? Why?

8. As most of our comments relate to this question, we have set out our responses in line with the chapter headings used by BIS in the CP. Detailed drafting comments on supporting or other aspects of the draft legislation included with the CP or otherwise published before the response date are set out in a separate section at the end of this response.

[1] https://www.gov.uk/government/speeches/the-importance-of-corporate-governance

Chapter 5 - Which Audits are affected?

9. We concur with the Government's intent to restrict the definition of a Public Interest Entity (PIE) to that included in the Directive, not taking up the Member State Option (MSO) to add further entities to the definition. As noted in our response to the December 2014 discussion paper (our DP response[2]), it is important to focus the extra regulatory requirements of the ARD where they can help reduce systemic risk to Member States caused by financial breakdown.

10. We note that the draft regulations include a definition of PIE which in essence mirrors that of the Directive. While understandable from a legal drafting perspective, this is not particularly user friendly, cross referencing to three other European legislative instruments. The CP discusses what this means to a certain extent but it would be useful for the supplementary information document published by BIS in March 2014, to be updated to explain what type of entities are included within the definition, in a UK context.

11. We comment on the proposed extension of the requirements to LLPs under question 8 below.

Chapter 6 – How are audits regulated?

Single competent authority and delegation of powers

12. We note that the Government is required by the Directive (Art 1, 2d) and the Regulation to be, or designate, a single competent authority with ultimate responsibility for the regulatory tasks under the Regulation and the 2006 Directive as amended (the Regulatory Tasks). The Government has indicated that the FRC will be the single competent authority in the United Kingdom. ICAEW concurs that the FRC is the most suitable body to be the competent authority, as this will require only minimal changes to the existing UK regulatory and standard-setting regimes for statutory audits, and the costs for establishing a new body will be avoided. However, we suggest that this decision may require the FRC to amend its constitution and governance procedures to ensure that it complies with the requirements of Article 21 of the Regulation.

13. Paragraph 6.2 of the CP notes that the Government may delegate the Regulatory Tasks directly to other authorities or bodies or may require or permit the FRC to delegate Regulatory Tasks. However the summary in paragraph 6.5 suggests that any investigations and sanctions relating to PIE audits would have to be conducted by the FRC under the Regulation and are not delegable. This is incorrect. The only Regulatory Tasks not permitted to be delegated are, per Article 24 of the Regulation, those related to:

    a) Under sub-paragraph 24(1)(a) the quality assurance system of PIE audits (Article 26 of the Regulation) and
    b) Under sub-paragraphs 24(1)(b) and (c) investigations arising from that quality assurance system or from a referral by another authority and sanctions and measures related to the quality assurance reviews or investigations of statutory audits of PIEs.

    The position as we understand it is that RSBs may conduct investigations into PIE audit complaints not arising from the FRC's Audit Quality Review Team or other regulatory bodies but that the tribunal stage and sanctions would need to be handled by the FRC. For all such issues to be referred to the FRC would be disproportionate and divert FRC resources from the systemic risks upon which it is required to concentrate.

14. The Government has announced that legislation would require the FRC to delegate Regulatory Tasks 'so far as is possible' to existing RSBs, meaning that the FRC would have only to conduct audit inspections, undertake investigations arising from the quality assurance system or from referrals by other authorities, and apply sanctions in respect of statutory audits of PIEs – which we have suggested should be confined as noted above. However, the draft Statutory

[2] ICAEW Representation 48/15 – Auditor regulation: discussion document on the implications of the EU and wider reforms

Instrument does not do as the Government intended, in that Section 3(1) of the SI makes the FRC the competent authority for *all* statutory audit regulatory matters, and Section 3(2) only requires it to *consider whether and* how tasks arising from its oversight of such matters may be delegated. Section 3(4) *enables* the FRC to delegate specified tasks to RSBs.

15. ICAEW considers that in order for the Government's intention to be fulfilled, the SI should *require* the delegation of the oversight of all matters relating to the statutory audits of non-public-interest entities to the RSBs. This may be achieved for example by deleting the words 'whether and' in Section 3(2).

16. Our attention has been drawn to the power in Section 3(9) ('the Secretary of State may give directions to the competent authority…'), but we consider this an uncertain mechanism for exercising Government's legislative intention, and one subject to change from one Government or Secretary of State to another. It is important to establish firmly the requirements of legislation so that those tasked with enforcement and those being regulated have certainty as to its effect over time. This is important in the area of statutory audits of PIEs and otherwise, as regulated firms should know with certainty how they are to be regulated, and by whom, during the entire tenure of their statutory audit engagements.

17. In the event that the Government determines to retain the approach of using a Ministerial Direction, ICAEW suggests that in order to achieve a reasonable degree of certainty over the regulation of statutory audits, any future change to that direction should be subject to a full public consultation process and should only be triggered by a substantial or material event evidencing major failure of non-PIE audit regulation.

18. Paragraph 6.7 of the CP, referring to Article 32(4) of the Directive, states that provision will be made for the FRC 'reclaiming [delegated] tasks on a case by case basis, and in relation to classes of auditors or audited entities'. The draft SI does include such provisions, and the directions issued by the Secretary of State under paragraph 9 of Section 3 of the draft regulations set out the manner in which the FRC should act in respect of those provisions. The relevant paragraphs, 2 to 4, are set out below.

> '2. Tasks of monitoring audit quality or of administrative or investigatory sanctions in relation to the engagement of a statutory auditor by an audited entity may be performed directly by the Financial Reporting Council:
>
> i because matters relating to the engagement raise or appear to raise important issues affecting the public interest;
>
> ii because the audited entity is a UK-traded non-EEA company as defined by the section 1241 of the Companies Act 2006 or an equivalent body corporate whose transferable securities are admitted to trading on a regulated market situated or operating in another EEA state.
>
> iii because the engagement is the subject of a joint inspection involving a third country competent authority; or,
>
> iv by agreement with the Recognised Supervisory Body.
>
> 3. Any tasks in relation to particular types of auditor or audited entity may be performed directly by the Financial Reporting Council:
>
> a. if the FRC considers that the RSB is unable to carry out the task; or,
>
> b. by agreement between the FRC and the RSB.
>
> 4. Where the FRC or RSB proposes that a task should be reclaimed or excepted from a delegation for a particular type of auditor or audited entity on the basis of paragraph 3 point (b) above, and there is no agreement, the FRC or RSB may approach the Secretary of State seeking a further direction on the matter.'

19. ICAEW concurs with the conditions in 2 ii to iv above. While we agree that there may be cases that should be taken on by the FRC due to their exceptional nature threatening the integrity of financial reporting in the UK, this should not be defined loosely by reference to the public

interest, but should be explained more carefully by the Secretary of State in the Direction. Examples of matters to be considered in this regard might be:

- Is the public at large affected? This should be interpreted to be a wider group than shareholders, but it should not be confused with 'of public interest' – i.e. interesting to a large number of people.
- What is the consequence of the matter, for example, has there been significant financial loss to investors or creditors or loss of confidence in the financial markets?
- How does the FRC pursuing the matter produce a result that benefits the public more than the normal RSB process?

20. ICAEW considers that the right to refer to the Secretary of State under paragraph 4 of the wording repeated above should be extended to include decisions made by the FRC under paragraph 3 point a. If decisions were to be made without such a right of referral, RSBs would only be able to challenge decisions of the FRC through judicial review.

Investigations, sanctions and powers

21. The CP (table at paragraph 6.8) sets out that the conduct of investigations and application of sanctions for audits of PIEs shall be reserved to the FRC. As noted above, it is ICAEW's understanding that the Regulation does not require those tasks to be retained by the FRC and that they can be delegated, at least in part, to RSBs.

22. Under the Regulation, the tasks that may not be delegated are specific, whereas the CP generalises them. In accordance with the Government's approach of minimum legislation, the specified tasks should be repeated verbatim in the legislation. To do otherwise would create unnecessary conflict between the Regulation and the legislation. It would also serve to create confusion for regulators and statutory auditors.

23. Accordingly, investigations of all matters related to statutory audits, except those expressly cited in Article 24.1 should be delegated to the RSBs. The legislation should require the FRC to conduct an investigation other than those under Article 24.1 only if, at present, the case raises important issues affecting the public interest or, as currently included in the CP, where agreed between the FRC and the RSB. The general 'in the public interest' terminology should not, however, be used to justify the reclamation of tasks, especially as in the past the FRC has justified such matters in the negative (would it be contrary to the public interest for this to be investigated by the FRC? - the answer to which can only very rarely be 'no') and where the FRC has concentrated in taking cases only against the largest firms.

24. The Directive requires Member States to give the competent authority powers in relation to the sanctioning of audit complaints relating to PIE companies. In our interpretation, this does not need to be anything more than a power to issue sanctions guidance for use by RSBs when a RSB tribunal upholds a complaint about PIE work. It does not require all audit complaints to be investigated by the competent authority nor for such matters to have to be tried in the competent authority's own tribunals.

25. Paragraphs 6.20 and 6.21 of the CP deal with sanctioning by the FRC of directors of PIEs. We agree with the approach specified in these paragraphs in the interests of equal treatment of directors of PIEs, not just directors who are members of accountancy bodies who are participants in the Accountancy Scheme. However, funding of investigations into non-accountancy directors should not be the responsibility of the accountancy bodies. Further, there does not appear to be any draft guidance for prosecuting authorities (or equivalent) implementing the intention for the FRC to work in conjunction with the Secretary of State using the Company Directors' Disqualification Act 1986.

26. Section 4 of the SI gives the competent authority sanctioning power over all statutory auditors, in respect of contraventions of relevant requirements (defined in Section 4(5)). It appears that the list does not include a power, required by revised Article 30a of the 2006 Directive: a

temporary prohibition banning a member of an audit firm or member of an administrative or management body of a PIE from exercising functions in audit firms or PIEs.

Quality assurance of auditors – audit inspection

27. The regime for inspections of registered audit firms conducting the audits of PIEs is essentially two-fold – the oversight of registered auditors looks at the firms themselves – their management, leadership, organisation, general standards, policies and procedures – as well as the actual audits. Currently the FRC performs reviews of the firms themselves, what are referred to as 'whole firm procedures', for a limited number of statutory audit firms, as well as the reviews of their PIE audit(s). In other cases, the FRC conducts reviews of the statutory audits of PIEs performed by the firm, but relies upon the whole firm procedures carried out by RSBs.

28. The Regulation (Article 26) sets out the specific requirements for quality assurance over PIE auditors. It requires that the competent authority shall carry out quality assurance reviews of PIE auditors on the basis of an analysis of the risk [not defined] and at least every 3 or 6 years (dependent on the PIEs being audited by the firm).

29. It requires an inspector to be employed or contracted by a competent authority. It is not clear whether the inspector can be a body, such as an RSB, possessing the attributes required of the Article, nor is it clear whether an inspector, being an employee of the competent authority can contract out work on the inspection to another body such as an RSB.

30. We would welcome clarity in the UK legislation as to whether an RSB may conduct the whole firm procedures on statutory auditors and detailed inspection work on the statutory audits of PIEs under a contracting arrangement with the competent authority, reserving to the competent authority the responsibilities specified under Article 26 Section 3.

Approval and registration of statutory auditors, continuing professional development for individuals

31. We note the approach taken in the CP, which leaves arrangements unchanged for UK registered auditors and introduces the necessary implementation requirements for recognition of third country auditors as required by the Directive.

Recognition of statutory auditors from another Member State

32. We note that BIS proposes that the FRC will be able to determine whether an aptitude test or adaptation period be applied in order for an EEA auditor to be registered to operate in the UK – or indeed whether the candidate would have a free choice.

33. In our response to the discussion paper we expressed concern over aspects of the proposal and these do not seem to have been addressed:
    a) We did not and do not see that the competent authority was best placed to undertake this role, as the professional bodies deal with most operational registration and audit qualification matters; and
    b) We did not and do not believe that adaptation periods deliver the assurance necessary with rigour, efficiency and proportionality to ensure that auditors from other Member States have the right level of knowledge and expertise to carry out audits in the UK. Our preference was and is to apply an aptitude test, as an unseen examination provides the best blend of these characteristics.

34. Indeed, our concerns about proportionality are magnified by the draft clauses. Should the FRC require us to move to an adaptation period, which itself would have to have an assessment within it, the process would have to be under the supervision of an auditor/ holder of an Audit Qualification and would have to be dovetailed to the particular applicant. While this would appear to be more of a bespoke process than current policy, it would also be

disproportionate. It would undoubtedly be more expensive to run with costs ultimately being borne the applicants; and more time-consuming as it would take longer for applicants to prove their competence. It would nevertheless still lack the rigour of an unseen test.

35. In addition, the FRC may well find themselves being lobbied directly by applicants – something that is not a role the ultimate competent authority may be best placed to deal with.

36. We also note that this role does not seem to feature in the analysis of roles and responsibilities in the table in paragraph 6.8 of the CP.

37. We would be very happy to discuss our concerns and potential solutions further with BIS.

Chapter 7 – Length of audit engagements

38. The analysis in the DP seemed overcomplicated: we urged in our DP response that the requirements should be kept simple and in line with the basic premise of the Regulation that there should be tendering at least every 10 years and (assuming the MSO was exercised, which we supported), rotation at least every 20 years.

39. The discussion in the CP in chapter 7 indicates that this is the approach which the Government has sought to achieve and we support the approach taken. Figure 7.1 is particularly useful.

Audit tendering

40. We understand that BIS is having discussions with the Competition and Markets Authority (CMA) with a view to incorporating the CMA Order on tendering within the legislation as far as reasonably possible. This would be a very worthwhile accomplishment as the proliferation of regulation and legislation that has to be looked at in order to understand what is required in this area, greatly increases the risk of some of those requirements being overlooked, or even conflicting in unexpected circumstances.

41. We are pleased that the ‘advance notice to tender’ requirements proposed in the DP have not been taken forward. Apart from going beyond the requirements of the ARD, it was not clear to us that this would result in useful information for shareholders at minimal cost.

42. While some of the measures in the ARD and the CMA statutory audit recommendations and orders are designed to enhance competition, there is still likely to be a limited realistic choice of auditor for some more specialised, complex businesses. It is not implausible that on occasion, especially bearing in mind the independence restrictions in the proposed revised FRC Ethical Standard, only one firm may wish to tender. Given that the audit committee is to be charged with making two recommendations, allowance needs to be made for such a circumstance.

43. We agree with the proposal to provide exemptions from mandatory tendering under the four categories of ‘alternative modalities’ for appointment of auditors specified in the CP.

Extension of period

44. We note and do not disagree with the BIS interpretation of the ARD permission for the Competent Authority to allow an extension of appointment in exceptional circumstances, or (by implication), that such an ability to grant an extension is desirable. However, given that the CP notes that this is for the FRC to decide, it is unclear how BIS intends to ensure that its view will be taken into consideration by the FRC.

Transitional periods

45. Because of the illogical complexity of the transitional arrangements in the Regulation, to which we referred in our DP response, implementation dates are not easy to understand. To that

end, anecdotal feedback is that the supplementary information document published by BIS in March 2015 has been well received, and updating it to reflect the conclusions from the CP will be a useful expenditure of time.

46. It is also helpful to have included a discussion in the CP on the effect of audit tenders undertaken within ten years of the implementation date, with an illustrative example. We assume this discussion will be carried into the updated supplementary information document.

Chapter 8 – Standards and standard setting

47. We note the FRC's separate consultation on audit and auditor independence standards and are responding to it accordingly.

48. In our response to the FRC, we are expressing a concern about the approach of copying text straight from the ARD into the standards without an attempt at interpretation. We have been informed that this is an approach advised by BIS. This is a very unhelpful approach that is about to add to uncertainty and time cost in understanding the new requirements. In our view it must be appropriate to explain or adjust the words, in particular for the Directive in respect of the latter, to ease understanding and be more consistent with existing language.

49. Subject to comments on the detailed wording when draft legislation is issued, we concur with the approach taken in this chapter, including the proposals on disclosure of fees paid for non-audit services.

Chapter 9 – Removal of auditors

50. We concur with the analysis provided in the CP and the decision not to specify 'proper grounds' for dismissal. The existing Directive clarification that differences of opinion on audit procedures and accounting treatments are not 'proper grounds' should provide the courts with sufficient guidance for an appropriate application of the amended Article 38 allowing various parties to seek dismissal of the auditor on such grounds.

Chapter 10 – Competent authorities co-operation, transferring information and confidentiality

51. As regards retention and/or transferring of information by auditors to others, we agree with the basic premise in the CP that the requirements of the ARD are already covered in existing legislation, or best addressed in the rules for auditors set by the FRC. The latter would assist in minimising the need for detailed future legislative change. However, having the competent authority address ARD requirements in its own rules for auditors does result in a concern that those rules should not unreasonably go beyond those specified in the ARD, in a way that would not happen if a legislative route were followed. This is part of a wider issue about the use of competent authority powers, addressed in our comments on Chapter 6 of the CP above.

52. The other matters in this chapter relate primarily to matters which are most appropriately commented on by the FRC as the competent authority.

Chapter 11 and Chapter 12 – Other audit measures and restrictive clauses

Technical standards

53. We note the new framework for adoption into EU law of International Standards on Auditing (ISAs). We have been urging the adoption of ISAs by the EU for years and will be pleased to see action on this front.

Regulatory reporting

54. We note that reporting requirements along the lines proposed already exist for banks, building societies and insurers. For other PIEs the requirement is new. The key requirement for

auditors will be that they can be clear as to what needs to be reported to whom, and when. On each of these points, Article 12 of the Regulation is not very clear:

a) What – the Article refers to material breaches of laws, regulations or administrative provisions. However, a material breach is not the same as a breach which could have a material effect. Also, an administrative provision could be read to cover, say, the company's articles of association. So the requirement could cover breaches of relatively small provision of the internal articles, which would have no effect on the stability of the company, the audit or the market. We doubt this was what was meant, but it is what the Article appears to state.

b) To whom – in the absence of any further action by BIS, the Article would imply that in each circumstance the breach should be reported to the FCA. While the FCA would clearly be interested in market-sensitive information, as they are already, it is not clear that they would be interested in material breaches of company articles (see above) or qualified audit opinions if the market already knew that one was expected. Qualified audit reports are more likely to be of interest to the FRC. However, over-complication risks confusion. There is also a risk of market-sensitive information being reported too widely. We understand that the FCA already has a mechanism for passing relevant information to the FRC: it may be better that the reporting always be to the FCA, with information that would be relevant to audit regulation being passed by them to the FRC.

c) When – the most problematic requirement in this regard is in Article 12.1(b) – 'a material threat or doubt concerning the continuous functioning of the public-interest entity'. This clearly would be market-sensitive information if the market was not already aware of the issue. Such a doubt could arise much earlier in the audit process than the timing of the ultimate issue of the audit opinion – indeed the opinion may be held up to see if the concern can be resolved. The Regulation is unclear as to the timing of such a report and great care should be taken when prescribing this.

55. In each of these cases, clarity as to the reporting requirement is needed. This may be in legislation, or other means. We note for example that the FRC's Practice Note 20 addresses, among other things, reporting to regulators in respect of the audit of insurers.

Restrictive clauses

56. The ARD requirements to disapply restrictive clauses are an important competition provision. It could be argued that the draft implementing regulations (stating that restrictive clauses shall 'have no effect') does not go quite as far as the Directive's 'any contractual clause…shall be prohibited'. However, we doubt that this would result in any difference in the substance of the requirement and are content with the approach.

57. The comments in the CP clarifying the commencement dates of Articles 16(20 and 16(6) of the Regulation are very useful and should be more widely disseminated.

Q2: Do you agree with the Government's proposals on amendments to the Companies Act to reflect Articles 15 and 18 of the Regulation and the amendments to Articles 23, 45 and 47 of the Directive? Do you agree that these are all that is needed to reflect the provisions of the new Directive and Regulation on cooperation, transferring information and confidentiality? Why?

58. Our comments in this area are included in the responses to question 1 above as they are linked to the discussions on the approach adopted.

Q3: Given the analysis of costs and benefits in the Impact Assessment in general, do you have any comments on how our estimates or underlying assumptions might be improved? Please explain your answer.

59. By and large, the changes proposed in the CP are required to be implemented by the ARD. Impact Analysis is therefore somewhat irrelevant. That said, while we do not generally accumulate data that would be relevant for these purposes as part of our professional and regulatory roles, we have no reason to suppose that the estimates given in the impact analysis published with the CP are significantly inappropriate.

60. We have communicated separately with BIS on a number of items of information specifically requested by BIS for Impact Analysis purposes and are happy to continue to do so.

Q4: Responses to our Discussion Document suggested that familiarisation and implementation costs to:

• newly designated PIEs; and,

• audit firms that become auditors of PIEs for the first time…

… would be disproportionately higher. We propose that in the final IA we should uplift the estimated costs for such businesses by a percentage to reflect the additional resource costs to such firms arising from their lack of experience of the requirements of the Regulation and of those provisions of the Directive applying to audits of PIEs. For each category listed above, what do you consider to be a reasonable percentage?

61. We have no data to add to the information needed by BIS in respect of this question.

Q5: In the consultation IA we have estimated the direct costs to PIEs of having to tender the audit engagement every 10 years. In our final analysis, we also plan to include an estimate of the additional costs that would be incurred by a new auditor that has to familiarise itself with the business of a new PIE client. We propose that the additional familiarisation cost to auditors engaged in a new audit could be estimated is an additional 10-30% of the cost of the audit in the first two years. Is this reasonable?

62. Audit firms will be in a better position to provide confirmation in this respect but the proposal does not seem unreasonable to us.

Q6: Our preliminary analysis suggested that the costs and benefits of the measures in the new Directive affecting audits of non-PIEs would be negligible. This has been assumed in the consultation IA. Is this reasonable? If not, what do you estimate will be the main changes giving rise to costs and benefits for non-PIEs and their auditors? Can you provide quantitative estimates?

Q7: It is particularly important to assess the costs and benefits arising from the new Directive for non-PIE LLPs and their auditors as the implementation of the new Directive is not required by EU law for these audits. Would your answers to question 6 differ for non-PIE LLPs? How and why?

63. We have no reason to suppose that there would be significant costs for non-PIEs resulting directly from the implementation of the ARD, particularly as such entities are likely to depend on their professional advisors to absorb the new requirements and advise on any need for change. There will inevitably be some learning time for those advisers (who for smaller companies will also tend to be the auditors). If one were to assume a one off time cost of

approximately £2,000 for each audit firm, for the approximately 3,300 firms registered with ICAEW for audit that would be a time cost of £6.6m.

64. As explained further below, we do not believe there would be any additional cost in this respect in applying the requirements to LLPs as they share many characteristics with companies.

Q8: Do you think that the Government should:

• implement the changes required by the new Directive for audits of non-PIE LLPs alongside those same changes for entities (such as companies) that are required to be audited by EU law; or,

• implement some or all of the changes required by the new Directive for audits of non-PIE LLPs at a later stage?

… please give reasons for your answer.

Q9: Do you think there would be cost savings from implementing the changes required by the new Directive for non-PIE LLPs at the same time as for entities (such as companies) whose audits are subject to EU law? Please give reasons for your answer. Can you provide any estimate of the extent of these savings?

65. It is logical to align requirements as LLPs share similar characteristics to companies, to the outside world. In principle the movement from the current position for non-PIE LLP's to that proposed will have a cost as any change requires time in absorbing that change. However, as the change is already required to be absorbed in respect of companies, there is a benefit to be had for those who deal with the accounting and administrative requirements for companies and LLPs (for example, accounting practitioners): only one set of requirements has to be learned. This is relevant to the overall impact analysis of extending the new ARD company requirements to non-PIE LLPs. Indeed, as the comparison is between current company/LLP requirements and the new ARD requirements, rather than two new sets of requirements, we believe that implementing the ARD requirements for non-PIE LLPs at the same time as those for companies would have no additional cost and avoid confusion.

OTHER MATTERS

Schedule 10, 6, 1(aa) (ii)

66. We note that the grandfathering provision still refers to being authorised on or before 5 April 2008. How would this provision interact with similar grandfathering provisions in other EEA states, but with later cut-off dates in their home state legislation?

Schedule 10, 6, (1B) (b)

67. '… rules required by sub-paragraph (1B)…' should read '…rules required by sub-paragraph (1)'.

Other communications with BIS

68. As part of our separate discussions with BIS, in our role as an RSB, we have provided input on, among other things, issues with the draft SI, the amendments to the Companies Act 2006, and the CP (summarised in an email of 6 November). The details on those discussions have not necessarily been repeated in this response in full.