MAZARS

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Dear Sirs

Discussion Document on the implications of the EU and wider reforms

1 Introduction

Mazars, the independent integrated international audit, accountancy and advisory firm which has a turnover in excess of 1 bn euros and 14,000 staff in 73 countries, including more than 1500 partners and staff in the UK, is pleased to offer its views on the above discussion paper.

2 Principles which should be applied by BiS in determining its approach

We consider BiS should determine its approach to the various issues which it needs to address in order to implement the European audit reform legislation and related issues by reference to the following principles:

- An overriding commitment to **promoting the public interest** as regards the role, activities and regulation of auditors and in so doing **ensuring the system of regulation for listed companies and financial services businesses forms a coherent whole .**
- A commitment to **seeking to follow the objectives of the European audit reform package** as set out in the Regulation and Directive.
- A commitment to **fostering the creation of an innovative and competitive audit profession** focused on meeting the needs of those to whom auditors report and the wider public interest.
- A commitment to **having regard to the Government's growth agenda** when implementing the Regulation and Directive with particular reference to promoting the SME sector and smaller quoted companies including those on the AIM market.
- A commitment to **proportionate regulation** and linked to this avoiding 'gold plating' when implementing the Regulation and Directive, both as regards actions taken by BiS itself and by those to whom it delegates authority such as the Financial Reporting Council (FRC).

We recognise that in applying the above principles there will be a need for the exercise of significant judgment and on occasion for striking a balance between potentially conflicting principles.

3 Our overall views from application of the above principles

Based on our application of the above principles, we would express the following main points on the discussion paper:

- The BiS Discussion Paper places far too little emphasis on promoting effective competition with regards to the audit of listed companies and on encouraging the FRC to do the same.
- The Member State option to allow an extension in the maximum period before compulsory rotation to 24 years where there are joint auditors, should be adopted.
- The proposal to designate the FRC as the sole competent authority needs to be reviewed. The governance of the FRC needs to be thoroughly reviewed to ensure it is fit for purpose for such a regulatory role. Fuller consideration also needs to be given to alternative approaches for the designation of the single competent authority, especially as regards the future role of the Recognised Supervisory Bodies (RSBs).
- The definition of PIEs should be the minimum allowed for in the Regulation, ie companies listed on a recognised Stock Exchange and certain financial services businesses and should not extend to those on exchange-regulated markets such as AIM companies.
- The audit thresholds should not be raised further at present.

In addition, we note that the paper does not seem to discuss sufficiently the definition and treatment of 'irregularities' as set out in the Regulation.

We discuss each of these points more fully in the following paragraphs.

4 Discussion Paper places too little emphasis on competition

In the section of the Discussion Paper on 'What we want to consider' one of the four areas for focus that you highlight with regards to identifying legislative and non-legislative action necessary is 'Avoid excessive concentration in the audit market'. The wording is slightly unusual as many would feel that with all but a handful of FTSE350 audits held by the four dominant firms and with the recent spate of audit tenders having done little to change the situation, that there is already excessive market concentration. In addition, the Competition Commission, as was, identified a number of adverse effects on competition in the UK market.

The Discussion Paper also fails to take the opportunity to explore properly and recommend a number of opportunities for promoting competition: as mentioned above, it proposes not taking advantage of the Member State option to set the maximum period before audit firm rotation at 24 years where there are joint auditors (Article 17.4); it does not discuss the process by which companies will ensure that they invite all firms eligible to do so to tender (Article 16.3); and does not address how the department proposes to assess and respond to information gathered on the market concentration levels including in particular sectors. In this context BiS needs to decide whether it directly or FRC should be the competent authority under Article 27 for the purposes of 'Monitoring market quality and competition' and if it is to be FRC, there should be an understanding of how they will undertake their role in this regard. Moreover, BiS should make clear that if the excessive market concentration in the listed company audit market does not reduce in a satisfactory manner over a specified time period, say 5 years, as a result of implementing the European audit reforms and those of the CMA that it will take further action to secure the necessary result given the public interest need for it. BiS should also

discuss with FRC how the latter proposes to adopt the CMA request that it includes promoting competition within its objectives and we note that there is no discussion of this important issue in its current draft plan and budget.

5 Decision not to adopt the Member State option relating to joint audit

We are surprised at the statement on page 29 of the Discussion Paper that 'The Government does not propose to make any special provision for joint audits especially as no reason is given for the decision. This represents a case of 'gold plating' on the proposed implementation of the Regulation as joint audits are permitted in the UK and the Regulation allows a maximum of 24 years before rotation for joint audits compared to 20 years in the case of the appointment of a sole auditor.

Joint audit has a proven record of enhancing competition and choice in one of the other major economies of the European Union and, in addition to its general merits, could play a particular role in strengthening the audits of those banks and insurance companies judged to be of systemic risk to the economy.

Failure to adopt the Member State option to extend the maximum period before rotation to 24 years where there are joint auditors will furthermore cause unnecessary complexity for UK PIEs that are also subsidiaries of international groups with joint auditors as it will lead to the UK auditors needing to change ahead of the group rotation.

6 Implications of proposal to make FRC single competent authority not fully considered

We are not persuaded that the different options for the future of the regulatory structure have been fully considered. Having regard to the importance of proportionality in regulation, it is not immediately clear what is the benefit of transferring responsibility for the inspection of non-major audits from the RSBs to the FRC. Indeed, a public interest case can be made for FRC keeping their primary focus on those audits potentially giving rise to systemic risk.

We believe that in determining how to implement the European audit reforms and those of the CMA it is very important that regard be had to the wider context and that what results is a coherent framework for the regulation of PIEs, essentially listed companies and financial services businesses. Determination of the appropriate framework needs to have regard to, amongst other factors, the appropriate roles for the FCA and FRC respectively.

We also consider that a full review is needed of the governance of the FRC to ensure that it is fit for its purpose. It has a much wider remit than many of its European counterparts and yet remains essentially a private body. There is the potential for significant conflicts of interest in its various roles, especially since its recent restructuring, eg with regards to its responsibilities for setting standards and then for their enforcement. In addition, the board itself is largely responsible for the appointment of its members and again a review should be undertaken to consider whether this remains appropriate. This issue is an important one as the current procedures have given rise to a very strong bias amongst those from the accountancy profession involved in the work of the FRC in favour of board, committee and staff members with a background with the four dominant firms.

7 The definition of PIEs should not be extended beyond the minimum needed

In the interests of proportionality, we consider that the definition of PIEs should not be extended beyond the minimum required in the Regulation. In particular, we do not consider that AIM companies

should be treated as PIEs. They are generally at the smaller end of the listed market and are potentially among those that are key generators of additional employment and we consider it important that they not be overburdened with regulation. We would, however, encourage a discussion with stakeholders in AIM companies, and especially shareholders, on whether they consider it would be beneficial for certain requirements set out in the Regulation to also apply to these companies. Areas for discussion might include those relating to enhanced ethical standards; the form of the audit report; the report to be submitted to the audit committee and the need for mandatory tendering and rotation of the auditors.

In saying this, we would envisage a distinction perhaps being drawn between the small number of very substantial AIM companies which it might be appropriate to treat in a broadly similar way to listed companies with a full listing and the vast majority of AIM companies.

8 The audit threshold should not be raised

In implementing the Directive, we would not support further raising the audit threshold at the present time. We are concerned that raising the threshold is seen as leading to a saving of audit fees whilst not incurring any additional costs. We believe this underestimates the costs to society from potential fraud and a general reduction in probity from having too great a proportion of business transactions not subject to audit.

9 Response to detailed questions

Our response to the detailed questions in the Discussion Paper is set out in the Appendix to this letter.

10 Further discussion

If you would find it helpful to discuss further any of he issues raised in this letter please do not hesitate to contact David Herbinet on 0207 063 4419 or Anthony Carey on 0207 063 4411.

Yours faithfully

Mazars

Questions

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.
We believe that an appropriate balance needs to be struck between legislative and non-legislative implementation of the Regulation and Directive. We consider, for example, that the respective roles of the FRC and the RSBs should be set out in legislation, as should the adoption of Member State options to allow the maximum periods possible before the compulsory rotation of auditors. We would also suggest the definition of a PIE for the purposes of the Regulation is probably best set out in legislation. Issues related to the provision of non-audit services would, however, seem to be most appropriately dealt with in a non-legislative fashion. The nature of sanctions to be applied in respect of particular provisions would also seem relevant in determining whether a legislative or non-legislative approach to implementation should be applied, for example if there were to be criminal sanctions a legislative approach would obviously be needed.

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.
We consider the Member State option allowing the maximum period before mandatory rotation to be extended to 20 years in circumstances where there has been an audit tender should be taken up. Similarly, we consider the Member State option to allow a maximum period of 24 years before mandatory rotation where there are joint auditors should also be taken up. This is not intended to be an exhaustive list. Other relevant issues are discussed in our response to individual questions below.

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?
We have set out above the principles which we believe should be applied in implementing the Regulation and Directive.

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?
We believe the principle of proportionality should be applied in implementing the Regulation and Directive. To the extent possible, we also believe care should be taken not to impose unnecessary burdens on smaller listed companies, as like private SMEs they are key drivers of growth and employment.

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?
We agree that having regard to the application of the proportionality principle and to seeking to foster growth in the economy the government should not extend the definition of a PIE beyond the minimum requirement. We believe, however, that in order to ensure a level playing field, the requirements of the Regulation should apply to all companies

with listed securities on a UK regulated market, irrespective of their country of incorporation.

Our suggested approach will, however, exclude AIM companies from the definition. In certain areas, however, such as the provision of non-audit services, it may be appropriate to consult on investors' views on whether the restrictions applying to AIM companies should be as for unlisted or whether the small number of very large AIM companies should be treated in a broadly similar way to companies with a full listing. Similar issues would apply to such companies with regards to retendering and the maximum periods before mandatory rotation.

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?
We would particularly draw attention to the importance of ensuring that the stated objectives of the Regulation and Directive are taken into account in the way in which they are implemented in the UK. Our comments above are also applicable.

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?
Financial Services businesses are already subject to a high level of regulation and so we would not expect undue issues to arise from the need to broaden the application of the 2006 Directive.

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 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 this is likely to vary by size of audit firm?
It is difficult to respond to this question other than in fairly general terms. The time spent with regards to each individual client will clearly vary according to the size, complexity and circumstances of the client. Similarly, costs will be incurred with regard to firms' internal management systems but it is not possible to determine a figure especially when a number of implementation issues, eg regarding the provision of non-audit services in the future, have yet to be determined.

For Mazars, we believe the costs are manageable and we are willing to incur them in order to create an audit market that better serves the public interest.

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?
We consider far more detailed consideration of the relevant issues is required than is currently set out in this Discussion Paper. In particular, consideration needs to be given to the consistency, effectiveness and impact of the overall regime for the regulation of PIEs and this requires fully considering the current and possible future role of the Financial Conduct Authority (FCA) with regards to listed and other financial services companies.

Subject to the above, we would tend to the view that the FRC should not be the single competent authority but that the respective roles of the FRC and RSBs should be set out directly in legislation.

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 audit 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?
As discussed above, we believe it is very important that there be an appropriate allocation of responsibilities between the FRC and the RSBs and thus that the definition of a PIE is appropriately determined.

It is also essential that there be appropriate checks and balances with regards to the exercise of the respective powers of the FRC and the RSBs. In this context, as discussed above, we believe a full governance review of FRC is required. We note that the FRC's remit is wider than that of their counterparts in many other jurisdictions and there would seem to be significant potential conflicts of interest in the standard setter for accounting and auditing standards also being responsible for monitoring their application and for taking enforcement and disciplinary action in relation to them.

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?
As discussed above in more general terms with regards to the FRC, we believe a thorough review of the AADB Scheme and the Audit Regulatory Sanctions Procedure is required. On one specific point, it seems anomalous, that FDs and audit committee chairs who are professionally qualified accountants are within the ambit of the AADB scheme but that those who hold similar positions but are not professionally qualified are outside its scope.

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? Please provide further information in support of your answer.
As discussed above, we believe a far fuller discussion of relevant issues is required but the accountancy profession has long been involved in regulatory and related issues and plays a significant role with regards to them and we therefore tend to the view that the authority and role of the RSBs should be directly set out in legislation rather than delegated at the prerogative of the FRC.

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 needed to ensure that authority only retained responsibilities or reclaimed delegated responsibilities in appropriate circumstances? What do you consider these circumstances should be?
Our previous responses refer to the issue in this question. Firstly, there should be proper consideration of which responsibilities should be allocated to the competent authority where discretion exists on the issue. Once the boundaries have been determined, there should be full due process with regards to determining retained and reclaimed responsibilities. It is hard to be very specific on the circumstances referred to in advance, but care needs to be taken to ensure that whichever organisation is exercising particular responsibilities, does so in an economical, efficient and effective manner and behaves fairly with emphasis on promoting the public interest in undertaking their role.

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.
We have responded to the issues raised in this question in our earlier responses but broadly we consider that the FRC should focus primarily on issues related to PIEs and generally leave matters relating to other entities to the RSBs.

Q15. Do you consider that both the registration of statutory auditors and their removal from the register should be covered by regulations under the Companies Act21? If so, which body or bodies do you think should have statutory powers for the removal of statutory auditors from the register?
We do. In view of the importance of the issue to the livelihoods of those affected, we consider the duly elected government, operating through BIS, should have the statutory powers for the removal of auditors from the register.

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?
Our previous responses refer to the issues covered in this question. If RSBs are granted their powers directly through legislation, we would consider it most appropriate for the approval of BIS to be required for the rules of the RSBs.

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?
Based on the generality of the proposals referred to, it is clearly not possible to estimate the likely costs and benefits at this stage. We have set out above the principles which we consider should be applied to ensure an effective system emerges.

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.
It could be a practical way forward to include the cap in FRC's ethical standards for auditors. Given, however, that this matter and related ones on non-audit services are very important from the perspective of promoting much needed competition in the

profession, our overall view would be strongly influenced by the extent to which the FRC was seen to be willingly and actively embracing this objective in line with the decision of the Competition and Markets Authority (CMA). We currently have very substantial reservations in this respect at present.

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?
There clearly are issues to be considered relating to how the averaging calculation is to be carried out. The provision of appropriate guidance will be helpful. We believe that such guidance should indicate that the calculation should be based on the non-audit services provided in the last three consecutive years regardless of whether services were provided in each of those years. Secondly, we consider the calculation should relate both to the extent to which non-audit services were provided by the UK firm to UK entities and also by the global network/firm to the group on a worldwide basis.

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.
Yes. We do not consider they will arise in many instances and where they do it is clearly likely to arise more in relation to smaller audit firms rather than firms of our size.

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?
Yes but care should be taken to make sure that the cases are genuinely exceptional. Moreover, where such situations arise we believe the FRC should require the appointment of a joint auditor to the company concerned to help ensure the necessary degree of independence of the auditors and the perception of it.

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.
As previously discussed, we think it is a practical way forward to include limits on non-audit services, whether in the form of the cap or the blacklist, in the FRC's ethical standards.

Given that the European Union has only recently determined those services which should be included on the blacklist to preserve the independence of auditors, and the perception of independence, we think care should be adopted before adding to the blacklist. The extent to which care is needed increases if a definition of a PIE is selected that is wider than the minimum laid down in the Regulation.

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?
We consider it would be helpful to have a roundtable discussion with investors, auditors, audit committees, FDs, government and regulators to discuss issues relating to the

blacklist and whether it should be the minimum set out in the regulation or extended or remitted in certain respects as permitted by Member State options.

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:
• underpin the standards? And,
• introduce simplifications for audits of small non-PIEs?

Please provide further information to support your answer.
Yes. This seems a practical way forward.

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.
Yes. This seems a sensible way forward though with the requirements of the new Regulation it will be an area in which the auditor will have greater potential conflicts of interest than in the past and so it will be important for FRC to appropriately monitor the reliability of disclosures made.

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?
It is clearly only possible to answer this question with some general comments at this stage ahead of the extent of the blacklist being determined and clearly given that any estimates will be influenced by the size and complexity of the audited entity and the nature and quantum of services being provided to them.

Further limiting the range of non-audit services that may be provided by auditors to PIE companies clearly allows the opportunity for more such non-audit services to be offered to a wider range of firms in a more balanced way than has happened to date and this will bring public policy benefits especially if it enables PIEs to get to know a wider range of potential auditors for consideration when they next go out to tender.

Q27. 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.
Broadly yes but we consider there would be merit in discussing whether there would be benefit in requiring the shareholders of a PIE to always make the decision on the selection of auditors before they are appointed, except in the very rare circumstances where the Secretary of State may become involved if they fail to do so.

Q28. Where the PIE is exempted from having an audit committee (eg 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.
We would regard it as generally good practice for unlisted PIEs to have an audit committee but where this is not the case, it seems a practical way forward for directors to make a recommendation to shareholders.

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.
We strongly disagree with the proposal not to take up the option to provide for an extension the maximum period before compulsory rotation to 24 years where there are joint auditors and note that the discussion paper does not provide any reason for this decision. We note that the decision also goes against the spirit of the Regulation which seeks to provide a clear incentive to appoint joint auditors. As paragraph 20 of the preamble to the Regulation states 'The appointment of more than one statutory auditor or audit firm by public interest entities would reinforce professional scepticism and help to increase audit quality. Also, this measure, combined with the presence of smaller audit firms in the audit market would facilitate the development of the capacity of such firms, thus broadening the choice of statutory auditors and audit firms for public-interest entities. Therefore, the latter should be encouraged and incentivised to appoint more than one statutory auditor or audit firm to carry out the statutory audit.'

As discussed above, the appointment of joint auditors has a proven track record in enhancing competition in one of the other major economies of the EU and should form

an important part of an integrated initiative to enhance competition and choice in the listed audit market and thereby help promote quality and innovation in the public interest.

Where a single auditor becomes a joint auditor of a PIE, we believe it would be fair and reasonable to expect the second appointed auditor to be subject of a tender ahead of initial appointment but we do not see the need for the current auditor to also be the subject of a tender at that time. An independent observer might well conclude that the Department is seeking to discourage joint auditors with its approach in a manner which constitutes 'gold-plating' of the Regulation.

Failure to take up the Member State option relating to extending the period before compulsory rotation in circumstances where there are joint auditors will also cause problems in practice in UK PIEs where the parent company has joint auditors, notably for a number of large banks and insurance undertakings in the UK.

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?
Yes.

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)
b)when the audit engagement was last retendered? (Yes)
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)
d)the directors' reasons for considering that the proposed year is in the best interests of the company's members? (Yes)

Do you consider that any other information should be included in addition the above? Please provide further information to support your answer.
The annual report should also disclose how the company is getting to know a sufficiently wide range of alternative auditors. It should also disclose in the year ahead of any audit tender how it proposes to alert all firms eligible to bid for the tender.

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.
We are not clear what problem this question is trying to address as the Regulation seems clear on the point being discussed and in a manner that does not coincide with the situation set out in any of the options above. Thus, a company could have a tender in year 7, in year 10 and then extend the period before rotation until year 20. Again, not to allow for such a situation would constitute gold-plating of the Regulation.

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?
Given that such sanctions may involve the audited entity, we would suggest that they be set out in primary or secondary legislation.

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?
Detailed information relating to audit tenders was collected by the Competition Commission, as was, with respect to the FTSE350, and so presumably is available to you. We would emphasise that we accept the costs involved in participating in audit tenders of PIEs and they will not act as a barrier to us participating in such tenders.

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?
We do not believe that inclusion of such a statement in legislation raises many issues since, with regards to the substantive point, the information is already required to be disclosed. We are not sure why the need to provide this information would need to be included in legislation as it is already included in the ISAs.

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 line with our views on avoiding gold-plating, we tend to the view that the requirements of Article 10 should only apply to PIEs.

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?

There clearly may be different audit reports for PIEs than for nearly all other entities if our preferred approach is adopted. For PIEs there would be merit in including the new requirements for audit reports in auditing standards.

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.

Yes this would be helpful.

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?

We do not consider that major issues arise as auditors currently report to audit committees on many of the issues covered in the Regulation. The new requirements further formalise the layout and content of the reporting. The audit committee will naturally wish to consider which of those issues covered should be included in their audit report to shareholders.

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?

Some modest additional work will be needed on the preparation of the additional report for the audit committee and the extent of it is likely to vary according to the size and complexity of the PIE concerned. Again, the audit committee currently receives a report from auditors so any additional work considering a slightly more formal report is not likely to be very significant, but will again vary according to the PIE's size and complexity.

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.

We do not see a strong case for raising the small company audit threshold at present. The risk of raising thresholds too high is that there are costs imposed on individual businesses and the business community and society more widely from additional exposure to fraud and from generally lower levels of confidence in financial information.

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?
We have discussed these is some detail in our introduction and in response to the detailed questions.

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 addition we remind you that the general questions asked at the start of chapter 4 also apply to the measures discussed in this chapter.
We will be happy to contribute to the impact assessment exercise but it will be necessary to be clearer on how the Regulation and Directive is to be implemented before a reliable assessment can be carried out.

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.
Yes, this is the simplest and most practical approach and allows for any adjustments to be made if needed in the light of practical experience.

Q45. For the purpose of our impact assessment on the changes we would welcome any estimate you could 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?
As previously stated, we think this will apply in very few instances and any costs incurred will not be material when making the impact assessment.

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?
We are not aware of significant issues that might be expected to arise.

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) 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)

Please provide further information in support of your answer.
We consider any additions to ISAs should only be made on a very spearing basis.

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)?
We think the new requirements serve to emphasise the important role of audit committees which we welcome. We do not envisage substantial implementation problems for audit committees though clearly they will need to devote extra time to their responsibilities. It will be important for them to consider how they are going to get to know a range of firms who may be their potential auditors, for them to apply the new approach on non-audit services and to make sure that they enable all eligible firms to have an opportunity to respond to the audit tender when it is published.

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?
We do not consider significant issues arise as it would generally be regarded as good practice for such banks, building societies and insurers to have an audit committee and in our experience many already do have one.

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?
As discussed, we believe hat many non-listed PIEs have audit committees and so do not believe that this aspect of the Regulation will lead to significant additional costs for business. Moreover, benefits will arise from having an audit committee.

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? or
(c) both?
We consider information provided to other regulators should also be provided to the FRC when it relates to matters related to their responsibilities in the fields of auditing, reporting and governance.

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?
We would not expect significant incremental costs in addition to those already incurred in providing the relevant information to the PRA and FCA.

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.
This role would seem, as at present, to belong more sensibly to the RSBs.

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 do you think this would be affected by CEAOB discussions "with a view to achieving a convergence of the requirements of the adaptation period and the aptitude test" across the EU?
We consider it would add unnecessary complications to give the role to the FRC rather than leaving it with the RSBs who should be responsible for determining who to admit to their membership subject to their complying with EU requirements relating to the aptitude test and adaptation periods.