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19 March 2015

Dear Sirs

Response to Discussion Paper – EU Audit Reform

We would like to thank you for the opportunity to respond to the above Discussion Paper. We would like to state at the outset that we support the majority of the reforms as set out in the EU Directive and Regulations in their application to PIEs and believe they will contribute to maintaining and in some areas enhancing objectivity and independence of the audit. In addition, we consider they will support the objective of the profession and the Competition Commission to improve accessibility within the audit market.

There are however a number of areas of concern in respect of the perhaps unintended affect implementation of the Directive and Regulations in the UK could have, in particular:

- Proportional application of the EU audit reforms to smaller entities and management bandwidth
- Use of a white list approach for acceptable non-audit services
- Unintentional impact on private equity backed companies

Proportional application of the EU audit reforms to smaller entities and management bandwidth

Our first and most serious concern is the application of the EU audit reforms to smaller listed entities on the AIM market. The FRC apply the current EU Audit Directives and Regulations to all Listed Entities not just those listed entities that are traded on an EU recognised stock exchange, to which they apply. In our opinion to include these smaller entities, that do not have the management bandwidth, nor financial resource to accommodate the restrictions that would be placed on them by the additional stricter requirements to be applied to PIEs, will lead to a constraint of the capital markets and make the UK an unattractive place to list. This is expanded upon in our response to Question 4.

Use of a white list approach for acceptable non-audit services

Another significant area of concern, which was strengthened by our attendance at the recent FRC event where we heard the views of Audit Committee Chairs, is that to adopt only a white list approach could result in Audit Committees considering the list as services that are sanctioned by the FRC leading them to no longer give independence the due consideration it deserves. This is

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particularly relevant if taken together with the cap on non-audit fees which could lead to Audit Committees rubber stamping those non-audit services contained on the list up to the 70% cap. This is expanded upon in our response to Question 23.

Unintentional impact on private equity backed companies

There are an increasing number of companies, often private equity backed companies, which have overseas listed, but non-traded, debt for structural purposes; again, we do not consider these to have the same public interest characteristics as a company that has quoted equity or debt that is freely traded. Unlike standard groups of companies a private equity backed company could have a number of affiliated companies with different auditors. If applying the restrictions to non-audit services provided by auditors, to those companies with affiliate status, this could place a severe restriction on which audit firms the private equity funder and affiliated portfolio companies can approach with respect to the provision of audit and non-audit services. We are aware that the BVCA are responding to the FRC specifically on this point, so have only briefly commented on this aspect in our response to Question 4.

Should you have any queries, arising from our responses, or wish to discuss them further please contact James Roberts on 01293 591098.

Yours faithfully

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Main changes

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.

Containing the requirements of the new Directive and Regulation within legislation could result in them being inflexible and difficult to amend and it is normally preferable to look towards non-legislative implementation. However, when delegating the power to implement the Directive and Regulation to the FRC, BIS should ensure that the FRC does so in accordance with the Government's commitment to minimal regulation and does not allow gold-plating of the Regulations other than for the purposes of clarity. For instance, BIS have concluded that they will not be taking up the member option to extend the definition of PIE to incorporate other types of entity. It is incumbent on BIS, when delegating their powers to the FRC that BIS ensure that the more stringent requirements are not extended to other types of entity without conducting a thorough impact analysis and strong justification.

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.

BDO have incorporated their comments on Member State options within their responses to individual questions.

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?

BDO have incorporated comments in respect of additional considerations and measures in the responses to individual questions.

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?

BDO recognise BIS and the FRC have no scope, other than to adopt the Member State options, in respect of how the Directive and Regulations are applied to PIEs irrespective of their size. However, one area where BIS could act to minimise the burden placed on small and medium-sized companies and indeed the SME market is to restrict the FRCs application of the Directive and Regulation to other listed entities not included as PIEs, specifically in respect to smaller entities listed on AIM. Such a move would support growth by enabling constituents of those capital markets obtain timely advice as well as providing an avenue for significantly improving the quality of corporate reporting, which is perhaps the real risk in terms of public interest amongst this group of entities.

The current stance of the FRC in relation to 'listed entity' captures a number of SMEs who are listed on AIM and smaller exchanges, not covered by the EU in their 2006 regulations but incorporated by the FRC in the implementation of them. Taking the AIM market as an example, it was established to assist small and medium sized companies attract funds, often from sophisticated investors that

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would enable them to grow. Few companies on AIM are of a size or investment nature to pose the type of systematic risk that BIS, the FRC or EU are seeking to monitor. For instance the FRC only monitor those companies listed on AIM that have a market capitalisation of £100m+.

BDO has recently undertaken an analysis of the size of companies, by market capitalisation and value, listed on the AIM market, summarised in the table below:

Market Capitalisation	Number of companies	Percentage of AIM	Representation of Market Value £m	% of Market Value
< £10m	395	35.94%	1,602	2.23%
>£10m < £30m	264	24.02%	4,971	6.93%
>£30m < £50m	123	11.19%	4,754	6.62%
>£50m <£100m	127	11.56%	9,106	12.69%
>£100m <£500m	170	15.47%	33,556	46.77%
>£500m <£1,000m	17	1.55%	11,328	15.80%
>£1,000m	3	0.27%	6,426	8.96%
Total	**1099**	**100%**	**71,743**	**100%**

As can be seen from the above table, only 190 of the 1099 companies listed on the AIM[1] market fall to be monitored by the FRC and conversely 909 companies listed on AIM are not within their scope, but carry the additional cost and burden of being defined as listed entities in respect of audit Ethical Standards; such as the restriction of auditors assisting the companies achieve high quality financial reporting.

BDO fully expect that when the FRC complete their examination of corporate reporting amongst listed SMEs they will find a correlation between the drop in quality of standards in corporate reporting; the restriction placed on auditors in not being able to offer accounting assistance to those companies, imposed in the application of the 2006 Regulations to listed entities, and those entities not being in the financial position to embrace multiple suppliers of services. The Public Interest mandate for allowing more proportional application of Ethical Standards to these companies is clear – they pose no systematic risk. Rarely do such companies have widely dispersed retail shareholders and in fact many of these companies have concentrated shareholding with the attributes of being 'closer' to being owner managed 'private' companies. As such there tends to be a significantly reduced public interest element and indeed the true public interest probably lies with ensuring high quality financial reporting and access to the best advice on a timely basis.

In a similar vein, there are an increasing number of companies, often private equity backed companies, which have overseas listed, but non-traded, financial instruments for structural purposes; these usually have no external ownership and again, we do not consider these to have the same public interest characteristics as a company that has quoted equity or debt that is freely traded. Private Equity firms and Venture Capitalists invest in small companies capable of high growth and as such make a significant contribution to the UK economy often bringing International funding into the UK economy. BDO strongly recommend that during the FRC's consultation period they meet and discuss the implications of their proposals with the British Private Equity and Venture Capital Association (BVCA) who represent the interests of many Private Equity firms and seek to understand the specific nature of these entities and their portfolio companies.

[1] As at November 2014

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Including these types of entities within the definition of other listed entities could potentially create significant restrictions on the choice of audit firm to provide audit and non-audit firms. Portfolio companies are generally free to select their own auditor and it is not uncommon for a private equity house to have a number of portfolio companies, each with different auditors. If just one portfolio company comes within the definition of other listed entity the private equity house and the other affiliated portfolio companies could be severely restricted in their choice of audit firm for both audit and non-audit services. Furthermore, there are practical difficulties associated with obtaining information in respect of the services provided and the fee structure amongst affiliated companies which have no reporting requirements between them, unlike a traditional group company structure.

The current Ethical Standards inhibit the auditor from proportional application of the principles to these organisations and instead assert all the prohibitions that would affect a FTSE100 company. We consider this an unintended consequence of the standards that urgently requires a remedy and one which highlights the importance of allowing proportional application of the Regulations/Legislation within the Standards.

BDO strongly recommend that BIS impose on the FRC restrictions preventing them from increasing the burden to these SMEs and further that the FRC be required to reconsider its application of the 2006 Regulations to such entities.

Public interest entities

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?

BDO agree that the Government should not expand the definition of a PIE beyond that of the EU minimum requirement. Furthermore, as set out in our response to Question One above, we would urge the Government, if delegating the implementation of the Regulations to the FRC that they impose such restrictions as to require the FRC to abide by the Government's ethos of minimum regulation.

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?

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?

BDO's response to both Question 6 and Question 7 are of a similar nature. We consider the main issue in applying the definition of PIE, as set out in the EU Reforms, is the impact on smaller unlisted entities, now caught within the definition of PIE. Although the audit exemption threshold will provide relief to some companies, a large number of smaller entities will now be required to appoint an Audit Committee and accommodate more stringent restrictions in respect of the provision of

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non-audit services, caps etc. BDO would recommend that consideration be given to how the cost burden of these requirements can be reduced, such as business grants, pooling of Audit Committees for 'similar smaller entities' etc.

Similarly the audit firms whom currently audit such entities will need support and guidance to implement appropriate quality control and monitoring procedures, assisting them to understand the changes needed, the impact on time and resource required to develop and maintain new monitoring systems and the cost of implementation and continued monitoring. Without this support these audit firms may leave the PIE-audit market and rather than widening the audit market the market could contract.

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?

An impact assessment of costs, associated with falling within the definition of PIE and PIE auditors for the first time, was carried out by the Competition Commission and is contained within their report "Statutory Audit Services for Large Companies Market Investigation" issued in October 2013.

Competent authorities

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?

Although BDO agree that audit and independence regulations should be set by the FRC, following appropriate consultation with the profession, and that the FRC should have ultimate oversight responsibility, we would support the delegation of audit regulatory tasks to the Recognised Supervisory Body. It is our opinion that the respective RSBs are in a more appropriate position to monitor and regulate their members, for the reasons set out below, and would support their being recognised as Other Designated Authorities.

We consider the FRC's focus, in respect of regulatory tasks and oversight should be restricted to those entities defined by the EU as PIEs and their auditors. As set out in our response to Question One the FRC was established to build and maintain confidence in the UK's Main Market and to build on the strengths of Audit Committees, Boards and key stakeholders to improve governance and reporting of the top FTSE 350 companies, and their auditors. This is in line with the recommendations of the Competition Commission.

BDO consider that much work has been done in this area with good results but would not support measures that stretch the FRC's resources or remove their focus from the monitoring of PIEs which would necessarily result from making them responsible for non-PIE audits. To give certainty and reassurance to both the UK market place and the respective bodies, BDO consider it appropriate that the Government opt to recognise the FRC as the single competent authority for PIE audits, ie those entities to which the requirements of the Directive and Regulations apply and directly

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authorise the respective RSBs as other designated authorities for all non-PIE audits and respective audit firms.

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?

BDO do not consider the implementation of the statutory framework, as set out in the Directive and Regulations require the implementation of a new statutory framework in the UK. The only requirements of the EU Directive and Regulations that need implementation relate the monitoring of PIEs. Once this is removed from the RSBs to the FRC (currently the RSBs monitor all audit firms with no more than 10 PIEs), BDO see no further changes to the current framework being needed. The FRC will remain focused on PIEs and their auditors and the RSBs will continue to monitor non-PIE engagements, this would meet the requirements of the EU audit reforms. The FRC have an existing power to require RSBs to remove a member's audit licence within the current framework, so no further changes are necessary in respect of this.

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 set out in our response to Question 10 we do not consider the EU audit reforms require changes to be made to the current framework nor specifically in respect of the current investigation and disciplinary arrangements, as they apply to accountants generally, between the professional supervisory bodies and the FRC.

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.

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?

As set out in our response to Question 9 and 10, BDO consider BIS should delegate powers to the RSBs directly and appoint the FRC as the single competent authority for PIEs and appoint the RSBs as "other designated authorities" for non-PIE audits.

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.

As stated above we disagree with the view that the Directive envisages only one single competent authority but in fact refers to 'competent authorities' throughout. It is our view that the tasks should be embedded in legislation giving responsibilities for PIE audits to FRC and non-PIE audits to the relevant RSB, making them 'other designated authorities'. The only tasks that need to be completed by an independent body are the setting of audit standards, which apply to PIEs and non-

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PIEs, and oversight. These tasks, must be completed by the FRC. It is our view that all other tasks can be assigned by the Government directly to 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 Act? If so, which body or bodies do you think should have statutory powers for the removal of statutory auditors from the register?

The registration of statutory auditors and their removal is already covered by legislation appointing the RSBs, who are ultimately responsible for their members, as licensors. As stated above the FRC already have the power to require the RSB to remove someone's licence. BDO see no reason that these arrangements should be changed.

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?

BDO do not see this as a requirement which stems from the EU Directive and Regulations. The FRC already have an oversight role set out in existing legislation. BDO see no reason that these arrangements should be changed.

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?

We have no data on this but agree a cost and benefit analysis is needed prior to BIS extending the requirements of the EU Directive and Regulations in the manner they have set out in the discussion paper. BDO do believe the financial impact would be lessened should BIS opt to delegate directly to the RSBs and rely on existing legislation and arrangements that are already compliant with the requirements of the EU Directive and Regulations.

Audit fees and non-audit services

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.

Yes we would support this approach, it is sensible to keep all independence requirements for audits contained within the FRC's ethical standards.

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?

Although BDO are not in favour of a cap, given the reduction in non-audit services provided by auditors in the last few years to those entities within the EU definition of PIE, BDO considers a cap of 70% is unlikely to have many implications in respect of its application to those entities.

However if, as is currently the case, the FRC are allowed to extend the EU Regulations to entities other than PIEs, ie to other listed entities, including entities listed on AIM and other smaller non-regulated markets, where audit fees are lower, we consider the cap of 70% could be too restrictive and ultimately unworkable. We refer you to our response to Question One re the impact of enabling the FRC to extend EU Regulations to other entities.

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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.

We agree the Member State option should be taken up to allow the FRC flexibility in the future if a reduction of cap becomes necessary. We do not consider it appropriate at this stage that the cap be less than 70%. The FRC currently impose a restriction on total fee income in respect of PIE audit of 10%. BDO do not consider this should be changed.

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.

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 set out in our response to Question 20 we consider the ethical standards to be the best place for all standards relating to the independence of the auditor and the Member State option should be adopted. However, we would not support the introduction of more stringent requirements than those currently set out in the EU Regulations. BDO consider it is of paramount importance that Audit Committees and key stakeholders are seen by the market to manage the risk of independence of auditors, in all aspects, be that tendering more often than every ten years, rotation of firm before the 20 year period and the provision of non-audit services. BDO considers that the more responsibility is taken away from these parties through legislation and regulation, the greater the risk of sending the message to the market that the Government and Regulators have insufficient faith in the Audit Committees and key stakeholders to manage the independence of the auditor, whom they monitor.

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?

A blacklist approach to non-audit services is a recognised and well established method of identifying those services that are to be prohibited and allows for differentiation between the audit services provided by different suppliers within the audit market. It is also in line with the majority of EU Member States who use a black list approach. , BDO consider significant issues would arise with opting to use a white list approach as currently being considered by the FRC.

BDO would caution against adopting a white list approach for the following reasons:

- One of the most important roles of the Regulator is to oversee an increase in the quality of corporate reporting, through improving standards of Audit Committees supported by the involvement of stakeholders. If a white list of permitted services is used BDO consider there is a real and significant danger that over time Audit Committees will come to see the list, not as those non-audit services that are not prohibited, but as a list of those services that are permissible and human nature being what it is, will cease to consider whether there are actually independence issues in relation to the provision of those services.
- Given the complexity of entities contained within the definition of PIE and their operations, it is unlikely that a white list approach would be sufficiently detailed to cover all

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eventualities and would stifle creativity and differentiation between audit firms which is in direct contradiction to the objectives of the FRC as set out in the Green Paper in 2010. This creativity and differentiation was considered by the FRC as vital to distinguishing audit firms and necessary to create a real competitive market offering and supported by the CMA.

- Non-audit services that are a threat to objectivity and independence of an audit of a set of financial statements are well known and are easily identifiable whereas to assess all services, both current and future, provided by audit firms and assess their impact on the financial statements and auditor's independence is likely to be time consuming, not cost effective and imperfect. The real cost of such imperfections is likely to be at the detriment of the capital market and its innovation.
- EU regulators have consulted extensively, with regulatory bodies in member countries, to develop a black list of non-audit services. Derogating from this list, for any Member State, would result in unnecessary inconsistencies in application of the Directive and Regulations across EU borders. As with any derogation from the Regulations, by individual Member States, which impacts entities' operations across borders, there should be an urgent and pressing need that is not addressed by taking a unified approach among member states.
- PIEs are accountable to their stakeholders by virtue of their position. Any perceived threats are disclosed in the reports to the financial statements and stakeholders have the opportunity to hold the Audit Committee to account for any perceived threats not adequately safeguarded against. Overriding this accountability with Regulation should not be encouraged without specific material concerns that the process of reporting and accountability is failing.

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.

(a) As set out in our answer to Question 18 we would support keeping all independence requirements in one place.
(b) BDO encourage all simplifications that can be applied to the audits of small non-PIEs.

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.

BDO see no reason why this disclosure should not be made, in fact we consider it would ease some of the concern around non-audit fees to show the split between those NAS required by legislation to be supplied by the auditor and other NAS.

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?

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(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?

We have no data on this and would refer BIS to the Competition Commission's impact assessment.

Tendering and duration of audit engagements

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.

BDO consider the system of appointment of auditor under CA 2006 should be maintained.

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.

Agreed. This is in line with the current alternative system as set out in Companies Act 2006 and we can envisage no realistic alternative.

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.

Agreed. Joint audits are so rare within the UK audit market that BDO do not consider it necessary to adopt the member state options which directly relate to them. It is considered sufficient to treat joint and single audits on the same basis.

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?

Agreed. This is in line with the recommendations of the CMA and provides flexibility to Audit Committees who balance the needs of the company with meeting regulations.

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:

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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.

We do not disagree with the items contained in the list above but would caution against providing a list rather than guidance as to the extent of reporting expected. Our own study of Audit Committee Reports shows that when provided with a list of required disclosures the report becomes 'boiler plate' rather than a detailed account of the matters taken into account and considered important by the Audit Committee which, if provided, would be more informative. Furthermore, BDO considers there should be provision for the Audit Committee to change its mind, having disclosed that it will tender - to not actually do so. There could be circumstances, having disclosed, such as a significant change in senior management, a hostile takeover bid or a significant M&A transaction that means it is no longer a good time to take on a tendering process. The regulations need to give the Audit Committees the option to change their mind and disclose those reasons and the new tendering timescales, in a subsequent report.

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.

Provided the regulations require an audit to have been tendered at least once in any ten year period and the maximum time an auditor can remain in office is 20 years we see no need for the regulations to be this detailed and it is a matter for the Audit Committee to decide what tendering timetable they want, be that every five years, seven years or ten years.

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 do should they be addressed?

BDO consider the only issue to be addressed is whose responsibility it is to monitor the length of time in office or whether, as we would recommend, it is a joint responsibility between the Audit Committee and the Auditor, which will reflect the reality of the discussions and planning undertaken by both sides.

Q34. For our impact assessment on the changes we would welcome any estimates that could be provided on:

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(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?

BDO would refer BIS to the impact assessment in the Competition Commission's report referred to above.

Audit reporting, and reporting to the audit committee

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?

BDO consider the change made to the CA 2006 should be in line with the minimal requirements of the Directive, as there is an existing obligation in respect of this in the Auditing Standards.

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.

Agreed we see no realistic alternative to this and support the view that all audit regulations should be encompassed in one place.

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?

We don't perceive there will be any particular issues in implementing the changes needed to ISA700 to bring it into line with the Regulations. The IAASB's newly revised ISA701 has already addressed all the changes needed, so the FRC have a route mapped for them.

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.

BDO agree Article 11 re the additional report to the Audit Committee be included in the amendments to the FRC's ISA but it should be segregated from the main text to make it clear that it applies to PIEs only, eg an appendix. BDO considers this will preserve the clarity of the ISA which are applicable to all audits.

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?

BDO do not consider there are likely to be any issues arising from the application of the provision of Article 11 in respect of PIEs.

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?

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(b) the additional annual cost of the audit committee considering the additional report?
(c) how these costs vary by size of PIE?

BDO consider the incremental cost of writing and the Audit Committee reading the report, in the main, are not significant given the value of such a report, which derives naturally from the audit procedures and judgements made. However, costs are dependent and proportionate to the entity to which they apply and vary depending on the size of that entity. Perversely it will take more time to write the reports for small PIEs that have less structure, limited controls and governance than it will to write the report for the main categories of PIE. In addition these smaller entities have fewer resources to implement the recommendations made and BDO would therefore question the cost/benefit of the report to such entities. We would again urge, given the additional regulatory and cost burden imposed by these reforms that the FRC are not permitted to extend these requirements beyond those entities defined as PIEs.

Audit exemption thresholds

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.

BDO do not have an issue with the audit limit being linked to the accounting threshold and welcome minimum regulation for small companies. However, BDO are mindful that should the accounting threshold increase to such a level that a significant proportion of UK companies were without independent oversight it may become appropriate to decouple in the future.

Other changes

The following general questions apply in relation to all the measures discussed in this chapter.

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?

BDO consider all major issues have been addressed in our responses above there are no further issues to arise here.

Q43. For the purpose of our impact assessment, we would welcome any information you can provide on the expected costs and benefits of the measures considered in this chapter, particularly any estimates of costs or benefits that you consider it would be possible to quantify?

BDO have no comment.

Technical standards and audits of consolidated accounts

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)?

BDO agree and would advocate keeping all audit independence matters with the FRC's ISAs and Ethical Standards though would caution against the FRC adapting the International Standards

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beyond changes needed to accommodate UK law. Consistency in the International and European market is of paramount importance to entities such as PIEs that typically operate across many borders

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?

BDO have no data on this.

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?

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.

We consider it is important that if applying EU adopted ISAs within the UK that they are not extended by the FRC beyond changes needed to incorporate the requirements of national law unless the FRC have conducted an impact assessment and can justify why such additions are necessary within the UK if not necessary with the EU.

Audit committees

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 concur with the recommendation to implement the new requirements via amendments to the existing DTR7.1 in the FCA Handbook but would counsel that guidance is given to Audit Committees as to the meaning of the majority of the members being required to be independent and how this impacts on the remuneration of members of the Audit Committee via share options in the company. Also we consider some guidance will be needed as to what the expectation is of sector specialism on the Audit Committee, does that mean all members, a majority of members or some members, as this could impact on the other skills sets and diversity requirements of Audit Committees.

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?

The most critical issues will be timing and cost and the need for some transitional relief post 16 June 2016, as good boards/Audit Committees take time to put together.

Q50. For our impact assessment on the changes, we would welcome data on:

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(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?

BDO do not propose to respond on these questions as we are aware of groups with more accurate data who will be doing so.

Reporting to supervisors

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?

BDO have no issue with the FRC receiving information provided to other Regulators but would urge BIS to not impose the duty to report on the PIE or their auditors. There are specific reporting requirements set down by the PRA and FCA, which are not for wider circulation, eg money launder suspicions. It should be for the Regulators to liaise and share information on entities under their joint regulation, where it is considered appropriate by them.

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 line with our response to question 51 above, we would refer BIS to the Regulators for this information and discussion on cross interaction.

Recognition of auditors from other member states

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.

We consider this responsibility, along with the issue of audit licences, should remain with the relevant professional body. It is only those professional bodies that have relevant information on which to base decisions on their members. As stated above the FRC already has the power to require the regulatory body to remove someone's audit licence and we see no need for this process to change as it is sufficient to be in line with the EU Audit Directives and Regulations.

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:

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(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?

For reasons given our response to Q53 above, the FRC should delegate this responsibility to the relevant professional bodies.