RBS
The Royal Bank of Scotland Group

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Dear Mr Smith

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

We welcome this opportunity to set out our views on the BIS's Discussion document.

The consultation document sets out a number of matters of importance to RBS both as a preparer and user of accounts. RBS has, in the course of 2014, undertaken an audit tender process, which provides it with particular insight on the challenges of undergoing auditor change.

In many cases, the proposed changes fall in line with existing corporate governance practice in the UK, and represent sound principles for governance. However, there are certain proposals that RBS does not consider result in improvements to corporate governance.

Overall changes

- We are supportive of the FRC being the competent supervisory body, and the changes that would follow from the need for this to be legally underpinned
- RBS, as a user of accounts and key stakeholder in many smaller organisations, supports proportionate application and simplification of the requirements for smaller companies
- We are not wholly persuaded of some of the options with respect to auditor rotation, and non-audit services where this creates undue complexity in application, or creates an unduly restrictive commercial choice for organisations resulting sub-optimal outcomes for stakeholders
- We note that there are some operational complexities, based on our recent experience of auditor change, in the execution of the proposals. We are particularly concerned about that as a large banking group, a 2-year time frame is necessary to effect a change of auditor
- We are not persuaded of the benefits of the auditor making reports submitted to regulatory supervisors available to the FRC as the competent supervisory body

Auditor rotation
RBS undertook a competitive tender process in 2014 that resulted in a decision to change external auditor. This change will take effect in 2016.

In deciding to change auditor, we recognised that:

- A change of auditor would result in business loss, since each of the challenger firms carried significant banking arrangements with RBS that would require to be exited under auditor independence rules. The firm selected must exit firm banking relationships in 7 countries, and hundreds of their staff must change their banking arrangements;
- Each of the challenger firms were engaged in significant services across RBS, many involving intricate and multi-year programmes that would have to be exited and transitioned to new providers;

- As a consequence, we expect the appointed firm to be formally independent only in the second half of 2015, some 9 months after their selection.

We do not consider ours to be a unique situation; it is one that any large bank would face in undergoing a change of auditor. We have particular concern about how this 2-year change process would sit with the regulation as drafted, which appears to assume that a Year 10 tender would enable a new appointment to take place in Year 11.

We support the good corporate governance practice of 10-year tenders, but there should be due regard to the complexity of managing a change of auditor. A 10-year cycle of tendering fits with a change of lead partner. As such, we would support an approach that allowed for any of:

(a) A Year 9 tender and a subsequent Year 11 change of auditor (as relevant)
(b) A Year 10 tender and a subsequent Year 12 change of auditor (if relevant)
(c) Where relevant, a Year 19 tender with a Year 21 change of auditor

The RBS tender process specifically aimed to ensure that the Board could appoint the audit firm that was best equipped to undertake its audit and would deliver the best audit quality to the organisation. We are concerned that the changes proposed could limit our ability to select the best auditor. Our 2014 process took six months to complete, and each of the participating firms indicated that the process we undertook was a model approach to the selection of an auditor. We do not believe it is possible for a large banking group to achieve a change of auditor in a period less than 2 years – following a thorough process of auditor assessment and a subsequent period to enable the appointed firm to take the necessary steps to achieve independence.

Legislative versus non-legislative implementation

Question 1: In relation to the measures discussed we would welcome comments on the balance between legislative and non-legislative implementation of the requirements of the new Directive and Regulation.

We consider the simplification and codification of the proposed requirements to be largely beneficial. However, we do note that the matters to which the Directive and Regulation refer are subject to a changing market place, matters of judgment and create commercial impacts. Therefore, while legislative implementation of the framework is appropriate, we would prefer non-legislative approaches taken to some of the specific matters; this would help promote some flexibility and not prevent good commercial practice. This is specifically the case in for the determination of acceptable non-audit services and application within large groups.

We also note that sanctions and/or the consequences for non-compliance has not been addressed and this would need to be understood in light of the use of legislation to implement the requirements.

Non-audit services

Question 18: 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?
Question 22: 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?
Question 23: 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?

Much of the proposals from the Regulation are already covered by FRC ethical standards. As such, we believe these are a suitable source of this guidance.

The assessment of independence is a matter of judgment, and we believe that the principles involved are better tackled through ethical standards rather than direct legislation, since this makes broader application (especially relevant for consolidated groups of companies and global networks of audit firms) easier to implement and manage, rather than specific legislation which cannot be applied on an extra-territorial basis.

We consider that the audit committee represents the best and most appropriate governance forum to manage the use of the auditor outside the core audit process. A 'blacklist' approach is the most appropriate mechanism to highlight areas where conflict is most likely, and to promote consistent market practice. A 'whitelist' approach, suggested by the FRC, removes the flexibility of the organisation to procure the best commercial outcome, and is less likely to reflect emerging market trends and issues. Either approach is

likely to create areas of uncertainty that require judgment. As such, we believe that the 'blacklist' approach represents the best mechanism to guide the Audit Committee.

To provide suitable transparency, we would consider it appropriate that an organisation be required to disclose its policy on procuring additional services from its auditor, such as through inclusion of the policy on its website or within its annual report. RBS already includes comment on its non-audit services policy within the Report of the Audit Committee within our annual report, as well as explaining procedures in relation to the *ad hoc* use of the auditor.

- RBS's practice regarding non-audit services is restrictive. The bank procures few services other than activities where the involvement of the auditor is most relevant (notably private reporting on quarterly reporting, debt issuance reporting accountant work and regulatory reporting including s166 work).

- As a bank, there is a wide range of activity where the involvement of the auditor is the best commercial outcome in terms of efficiency and effectiveness. We are concerned that the use of a "whitelist" approach, which is likely to focus on activities common across all corporate entities, would be unduly restrictive to RBS as a regulated financial services organisation and would not be sufficiently flexible to recognise changes that occur in the roles that auditors and accounting firms take, or indeed in business practices.

- As a banking provider, RBS makes significant use of accounting firms to support restructuring activities with customers. We are concerned about the consequences of limiting the choice of firm selection and the risk of creating sub-optimal outcomes for customers where a bank is prevented in appointing the accounting provider with the best skillset and experience. Indeed for syndicated lending arrangements, it is possible that all of the major accounting firms could act as auditors for the lenders.

As a provider of finance, RBS is also a key user of the reports of auditors from its clients, and sees how smaller businesses utilise auditors in their wider business. While for larger organisations typically have a wide-level of access to multiple accounting firms, making their engagement more straightforward this is not true for smaller entities. We do not consider it appropriate to require the same restrictions on non-audit services for such smaller entities. We do recognise that rotation is relevant for smaller entities given the possibility of this greater reliance.

Consolidated Groups

Question 6: 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?
Question 7: What issues do you consider arise from the need to broaden the application of the implementation of the 2006 Directive to include [other organisations]? How do you consider these should be addressed?

We are concerned about how the Audit Regulation and Audit Directive would apply within a consolidated group.

We believe that both the assessment of independence and the assessment of the scale of non-audit services are best assessed once within the context of a consolidated group, at the "topco" level. RBS is a complex group with 15 separate regulated entities that could potentially fall into the scope of the Regulation and Directive.

As drafted, the proposals would require application individually by each of these entities:

- We believe that conceptually it is preferable for the assessment of fees to be made once on a group-wide basis. This avoids any ambiguity over which entity sources a piece of work, and ensures a consistent approach within a consolidated group
- This approach also marries with the best approach to independence, which is for a consolidated view, made by the audit committee of the group and not individually made at each entity level
- At a group level, all aspects can be properly considered

While we recognise that the Directive and Regulation only have legal force within the EU, we believe that as a principle based approach, this single group-wide application is appropriate on a global basis. We

believe that an EU only approach would create potential anomalies that do not sit comfortably with the ability to support the perception and principle of independence.

Similarly, we believe that the audit firm responsible for the audit of the parent company and consolidated group should take account of the activities of its fellow member firms (across its global network) in making its assessment.

Question 19: What issues do you consider arise from the application of the provisions on the cap on non-audit services? How do you consider these should be addressed?
Question 21: Do you agree that the FRC should have the ability to exempt an audit firm from the cap for up to two financial years on an exceptional basis and on application by the firm?

We believe that the 70% cap is appropriate and generally sufficient to allow commercial flexibility, but that a process should exist to manage exceptions to that policy. Since we believe a cap is a blunt mechanism that could restrict the use of the auditor, even where they are most experienced and skilled provider, we do not support a further restriction.

While we accept that exceptions could be provided by the relevant supervisory authority, this is not the simplest approach that could be applied. An audit committee is best placed to ensure that independence is maintained in such a situation, which should be disclosed. Such situations might arise due to significant changes in the size and structure of a group (arising through acquisitions and disposals), or as a result of capital raising or listings (especially if these are significant).

Disclosure within annual reporting
Question 30: 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?
Question 31: We are seeking views on the proposal that for companies that are PIEs the company's plans on retendering should be part of a new element of the annual report setting out key matters for the audit committee on the appointment of auditors. Do you agree that the report should include:

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

Do you consider that any other information should be included in addition the above?
Question 32: 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.

The BIS document indicates the proposal to create a new element of the Directors' report to cover off these matters. We would note that most PIEs have extensive reporting on the activities of their governance, and reports from each committee including the Audit Committee. We believe that additional items of disclosure should be included within the report of the audit committee where appropriate rather than requiring this to be within the directors report.

We support disclosure of (a) when the current auditor took up the audit engagement, and (b) when the audit was last retendered. We do not support (c) stating when the company next intends to tender, nor (d) the reasons for the proposed year. We do support, in lieu of (c) and (d), the company disclosing its policy and approach to tendering.

This is because, while the company should have a broader policy that indicates its approach to tendering, other factors may be relevant to the consideration of the Board and Audit Committee, and forcing an approach, and applying additional disclosure requirements does not allow the company to apply

appropriate commercial and corporate governance considerations as to how the best interests of the company and its stakeholders are served.

Equally, we are not supportive of an approach (such as set out in Q32 a) that limits the period for which an auditor can hold office purely by virtue of when the period since the last tender process. We would support the application of a maximum period of 10 years between tenders (as set out in Q32b) and a maximum appointment period of 20 years.

As we set out above, more complex organisations need to arrange a longer window to manage auditor transition. The proposal to limit a tender period to the length of the previous period would lock a company into a permanent shorter cycle, notwithstanding the reasons for the individual decision to choose a shorter window. For instance, a step change in the size of an entity may lead to the conclusion that a change of auditor is appropriate (eg the incumbent firm no longer holds the required geographic coverage for a growing organisation). If this happened 7 years into an appointment, the firm would be subsequently stuck with a 7-year tender cycle notwithstanding the clear and appropriate reasons to hold an "off 10 year" tender process.

Reporting to the regulator

Question 51: 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?

Question 52: 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 do not support the proposal that FRC receives reporting submitted by the external auditor to relevant supervisors of PIEs. Supervisors (the PRA and FCA) have specific responsibilities, to which s342 reporting under FSMA has specific relevance in how they discharge these responsibilities. It is not clear to us that these issues would be of similar relevance to the FRC in the context of audit regulation.

The FRC has no responsibilities with respect to non-compliance of a PIE with a separate supervisor's regulatory regime. We also note that there is no expectation that an auditor should report to the FRC similar issues in relation to other PIEs (legal non-compliance or the issue of a qualified report). It seems that applying this solely with respect to regulated entities is therefore unwarranted.

We would also note that future developments concerning the PRA and FCA include the potential to require additional reporting from the external auditors of regulated entities, and as proposed this would also require that these reports are submitted to the FRC. We do not believe that the provision of these reports to the FRC is relevant to the regulation and supervision of audit quality.

Sanctions

Question 3: In relation to the measures discussed 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?
Question 33: 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?

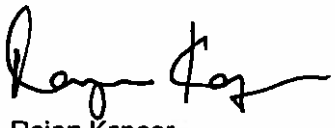
The proposals do not cover what the consequences/sanctions would be for a failure to comply with matters under the Directive or that are written into regulation by the competent supervisory body.

Since, as we set out above, we believe a two-year window is necessary to effect a change of auditor for banks, we do not believe a sanction of disqualifying an auditor from acting on a particular entity is appropriate as it would create a situation where the organisation was unable to comply with other legal requirements (eg the requirement to have an audit). We would be interested to understand what proposals for dealing with non-compliance with regulation would be, and would note our concern that there is a significant risk of limiting the choice of auditor available to a large banking group.

We have separately responded to the questions raised by the FRC, which cover some of the same items, and have attached a copy to this letter.

We would be happy to meet to discuss our comments in more detail if this was considered helpful.

Yours sincerely



Rajan Kapoor
Financial Controller

Enc
Letter to Mr Billing on Auditor Regulation

Responses to other questions

Q1 – dealt with in main response

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.*

RBS is supportive of the proposals for derogation as laid out in the discussion paper.

Q3 – dealt with in main response

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?

Yes, we believe simplification should be offered. In particular, we believe that:

1. Greater flexibility should be offered in terms of the provision of services by the auditor to smaller clients, where there is a risk of higher costs from not being able to use the auditor
2. Modification of the audit fee cap be applied, recognising the smaller underlying fees received by the auditor make the cap more onerous in comparison to larger organisations. This should also reflect that in the context of a smaller absolute fee level, there is less impediment to the independence of an auditor by virtue of the quantum of fee
3. A prohibited service should be, in general, consistently applied to all organisations since it is the nature of the service rather than the quantum of the fee level that creates the conflict of interest. However, we would note that tax compliance work is an important service for many smaller organisations, and where this does not stray into tax advisory or planning work we do not see this as a conflict – since this is more akin to account preparation and not advisory or record-keeping

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?

Consistent with the reasoning in Question 4 above, we are not persuaded that there is clear benefit in extending the requirement beyond PIEs as set out in the Directive. We believe that the principles of auditor rotation should be addressed for wider entities through good/best practice guidelines for corporate governance, and that auditor independence is effectively addressed through ethical guidance rather than formal extension of this legislation.

Q6 – dealt with in main response
Q7 – dealt with in main response

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?

We are concerned that the costs are likely to be substantial for large banking groups.

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 are supportive of the FRC becoming the single competent authority.

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?

No comment.

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?

We note (see response to Question 3) that little detail has been established as to how non-compliance would be addressed, and it would be relevant to this relationship.

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.

We believe that this proposal is appropriate, since it would avoid undue additional cost as a result of the changes, and allow the existing processes to be built upon rather than needing the FRC to replicate existing capabilities within the professional supervisory bodies.

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?

No comment.

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.

No comment.

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?

No comment.

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?

No comment.

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?

No comment.

Q18 – dealt with in main response.
Q19 – dealt with in main response.

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.

No comment.

Q21 – dealt with in main response.
Q22 – dealt with in main response.
Q23 – dealt with in main response.

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.

Yes, for the reasons given for questions 18, 22 and 23 we believe implementation via the ethical standards is most appropriate, and would support relevant simplifications for 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.

This is considered to be appropriate.

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?

Please see response to questions 18, 22 and 23.

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 appropnate? Please provide further information to support your answer.

Yes, we believe the existing framework 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.

Yes, we support the company's directors determining the approach and would support this being set out and explained, as relevant, in annual report disclosures.

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.

No comment.

Q30 – dealt with in main response.
Q31 – dealt with in main response.
Q32 – dealt with in main response.
Q33 – dealt with in main response.

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?

While over time, costs may fall, the RBS audit tender process ran from May-October 2014 (representing six months) and we understand that the bidding firms had full-time teams of upwards of 30 staff as well as committed time from approximately 20 partners over this period, no doubt impacting wider numbers of the firms behind the scenes. As such, we anticipate that each firm committed over £1m to the process. For RBS, we held over 100 meetings with senior management, committing their time, as well as dedicating a single point of contact fulltime to the process. A senior panel of 8 senior management and the 5 members of the RBS Audit Committee also had to invest considerable time to consider the proposals, hear presentations and provide a recommendation on selection to the full Board for approval.

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?

This is already consistent with current UK practice.

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.

This is already consistent with current UK practice for listed entities.

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?

No comment.

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.

This is already consistent with current UK practice. We do not anticipate significant impact, though we would note that over-prescription of report format risks increasing boiler-plate submissions and may reduce the benefit of such report, by preventing significant issues receiving due prominence by forcing a more templated report to the Audit Committee.

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?

See response to Question 38.

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?

No comment.

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 would support option (a) that increases the numbers of small companies that are able to take advantage of exemptions. We would also note (per option (c)) that there are some entities (notably special purposes entities) and some wholly-owned subsidiaries within consolidated groups would not receive significant benefit from applying the full range of audit committee, audit reporting and audit committee reporting requirements, since relevant issues would be duly considered in alternative contexts (such as group-wide audit committees and governance processes).

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?

No comment.

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?
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.

No comment.

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)?

Yes.

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?

No comment.

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?

No comment.

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.

Yes - it is most appropriate that ISAs are applied in their entirety, and it would be appropriate that the UK maintained the discretion to apply ISAs in full. Following experience on the adoption within the EU of International Accounting Requirements, we believe it is helpful that options exist that enable firms to ensure compliance with the full range of ISAs even where the EU does not require this (or would otherwise prevent this). This can have particular relevance in being able to maintain compliance with listing agencies in some (non-EU) countries.

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)?

No comment.

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?

No comment.

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?

No comment.

Q51 – dealt with in main response.
Q52 – dealt with in main response.

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.

No comment.

Q54. Were the single competent authority to have this role, what do you consider would be the implications for the operational provision (currently by the professional supervisory bodies) of:

(a) aptitude tests; and

(b) adaptation periods (if these were to be provided for)?

How would this be affected by the CEAOB progressing discussions "with a view to achieving a convergence of the requirements of the adaptation period and the aptitude test" across the EU?

No comment.