



Auditor regulation

The ABI's response to the BIS's Discussion document on the implications of the EU and wider reforms

1. The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

ABI comments

2. We welcome the opportunity to comment on the Department for Business Innovation & Skills' *Auditor regulation: Discussion document on the wider implications of the EU and wider reforms*.
3. Overall, we support the BIS's approach in that it avoids the gold-plating of European requirements and also minimises inconsistencies with other European countries and so does not penalise multinational companies. In our view, the audit framework in the UK works reasonably well and so gives a good basis for assessing whether any options in the European legislation should be taken up. In our view, these should be kept to the minimum.
4. We also support a minimum legislation approach, as this gives more flexibility and better nuancing, and we think that the FRC's ethical standards can provide a firm enough approach that also permits appropriate flexibility.
5. We are aware that there is some ambiguity in the European legislation requirements for tendering. We support solutions that protect the company from having more frequent tender processes because it has retendered before the expiry of the 10 years maximum duration. We welcome the BIS providing clarification on this point, and as it affects the transition to the new legislative regime.
6. Our answers to the BIS's questions are given in the appendix.

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Questions from chapter 4

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

1. We prefer non-legislative measures on balance. This approach gives more flexibility and perhaps better nuancing.

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.

2. We consider that the current framework in the UK provides a good overall basis for assessing whether, and in what way, any Member State options should be taken up. However, we also emphasise the need for the BIS and, to the extent that its responsibilities are devolved, the FRC or others, to avoid gold-plating of European requirements.

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?

3. We have not identified further issues.

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?

4. We have no comments.

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?

5. Yes. It was misguided of the EU in the first place to extend the definition of PIEs beyond listed companies to other financial services companies such as insurers that are in any case subject to very strong prudential regulation. To extend it still further would be gold-plating even EU requirements, and quite unnecessary and onerous.

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?

6. The requirements will place disproportionate burden on mutuals and other unlisted insurers - very many of which are small, have limited resources, and lack finance other than from their policyholders, - the protection of whose interests is already at the very heart of regulation and supervision by the Prudential Regulation Authority. Every effort should be made to reduce the effects. This comment is relevant to a number of other questions below.

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?

7. We have no comments.

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?*

8. We have no comments.

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?

9. We have no comments.

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?

10. We have no comments..

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?

11. We have no comments.

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.

12. We have no comments.

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

13. We have no comments.

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.

14. We do not think there are any. We support a minimum legislation approach.

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?

15. We have no comments.

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?

16. We have no comments.

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?

17. We have no comments.

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.

18. Yes. We support a minimal legislation approach.

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?

19. We have no comments.

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.

20. Yes. We support a minimal legislation approach.

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?

21. 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.

22. Yes. We support a minimal legislation approach, and we think that the FRC's ethical standards support a firm enough approach that also permits appropriate flexibility.

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?

23. We have no comments

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.

24. Yes. We support a minimal legislation approach.

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.

25. No. it should not be assumed that disclosure to the competent authority is the same as public disclosure. They satisfy different purposes.

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?*

26. We have no comments.

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.

27. We are content that the current Companies Act framework be retained.

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.

28. We agree.

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.

29. We have no comments.

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?

30. Yes. Further, we support any measure that promotes this ability of the PIE to take advantage of extending the maximum duration beyond ten years.

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:

when the current auditor took up the audit engagement at that company? (Yes / No)

- a) *when the audit engagement was last retendered? (Yes / No)*

- b) 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)*
- c) 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.

31. We agree with (a). We do not agree with (b) or (c), because this undermines the annual basis on which auditors are appointed in the UK and there appears to be no benefit to the company and its shareholders from providing this information.

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.

32. We support a solution that protects the company from having more frequent tender processes simply because it has retendered before the expiry of the 10 year maximum duration.

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?

33. We are content that the UK's current approach is continued as far as the EU legislation permits.

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?*

34. We do not have such figures. However, we emphasise that the costs of changes in auditors, to the entity and the auditor, are not small and should not ignored.

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?

35. We have no comments.

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.

36. We agree.

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?

37. We have no comments.

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.

38. We agree.

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?

39. We have no comments.

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?*

40. We have no additional comments – see question 6 above.

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.

41. We have no comments.

Questions from chapter 5

In this chapter we have only asked specific questions under each section where the measures considered give rise to specific questions where your views would be particularly helpful.

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?

42. We have no comments.

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.

43. We have no comments.

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)?

44. We agree.

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?

45. We have no comments.

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?

46. We have none.

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.

47. We agree with (a) and (b).

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)?

48. We have no comments.

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?

49. We have no additional comments – see question 6 above.

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?*

50. We do not have these figures.

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?*

51. We have no comments.

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?*

52. We do not have such figures. However, please see our answer to question 6 above.

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.

53. We have no comments.

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?

54. We have no comments.