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Dear Mr Smith

Discussion document on the implications of the EU and wider reforms to auditor regulation

Deloitte LLP is pleased to respond to the Department for Business, Innovation and Skills' (BIS) discussion document on the implications of the EU and wider reforms to auditor regulation.

Introduction

In recent years, the legislative and regulatory environment for audit in the UK has been under unprecedented scrutiny. The implementation of the reforms considered in the discussion document come on the heels of reforms resulting from the recent Competition and Markets Authority (CMA) inquiry and changes to the corporate governance framework. Within this context we welcome the open tone of the discussion document and its commitment to incorporating the views of a wide range of relevant stakeholders as it prepares to implement the latest reforms.

The structure of our response

In this letter we describe:

- our guiding principles for audits and the audit profession; and
- our responses to the four key questions that are set out in the Executive Summary of the discussion document.

The appendix to this letter follows the structure of sections 4 and 5 of the discussion document and sets out our responses to the detailed questions in those sections.

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Our guiding principles

Our views on how the reforms should be implemented are guided by a number of principles:

- The public interest is best served by a competitive market of strong, highly skilled, innovative audit firms.
- Reforms are more likely to be effective when they are easy to understand and consistent.
- Perceptions matter: concerns that audit firms are too close to management can undermine confidence in capital markets.
- Reforms should be proportionate. Instead of adopting a "one size fits all" approach, they should be focused on where they will make a difference, recognising that the reforms required in the large company audit sector do not necessarily need to be replicated for smaller companies.
- Reforms need to be implemented in a manner which does not harm audit quality or cause undue disruption to audited entities. In particular:
  - transition arrangements need to allow an orderly move to the new regulatory regime;
  - companies' choice of service provider should not be unduly restricted; and
  - reforms should not result in increased costs to audited entities through work having to be duplicated by different firms.
- Reforms should be consistent across the EU to minimise the impact of a patchwork of differing requirements that would create unnecessary complexity for global PIEs.

Responses to your key questions set out on page 6

Are we [BIS] taking the right approach in maintaining the EU definition of Public Interest Entity (PIE) rather than extending it?

Yes. The regulatory regime currently pertaining to the audits of organisations varies significantly depending on a range of factors including the organisation's size, ownership and listing status:

- The audits of companies listed on the London Stock Exchange (LSE) Main Market, large companies listed on the Alternative Investment Market (AIM), very large private companies, large pension funds and charities and all UK banks and building societies are treated as "major audits" for the purposes of audit inspection and notification of major audit appointments to the Audit Registration Committee (ARC).
- Audits of "listed companies" encompass some, but not all, major audits (those of Main Market listed companies and larger AIM listed companies), as well as smaller AIM listed companies and those that are quoted on the ICAP Securities & Derivatives Exchange (ISDX). These audits are subject to regular partner rotation, Non-Audit Services (NAS) restrictions in existing Ethical Standards and partner-led Engagement Quality Control Reviews (EQCRs).
- FTSE 350 companies (a subset of LSE Main Market listed companies) are also subject to the regulatory changes – including audit firm tendering – that arose from the CMA's inquiry into the market for statutory audit for large listed companies.

Introducing new regulations for EU PIEs, as defined by the EU, complicates this picture further: they will apply to some, but not all, of the companies set out above, as well as to others (such as unlisted insurance companies) that are not listed above. The benefit of extending the PIE definition is that it would bring greater consistency to this regulatory landscape.

However, these advantages need to be weighed up against concerns about a lack of proportionality and potential damage to competition in the market and the competitiveness of the UK as a place to headquarter businesses. Extending the definition of PIEs would amount to unnecessary gold-plating: the audits of some companies would be subject to more stringent requirements to address perceived concerns that don't apply to them. Furthermore, it could cause companies to move to markets where there is less regulation.

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It is also worth pointing out that the investors in companies that fall outside the EU's PIE definition can always put pressure on boards and management to adopt the changes required of EU PIEs, if they feel there is a need to do so.

Are we [BIS] taking the right approach in proposing that there should be a single competent authority with ultimate responsibility for audit regulatory tasks and seeking views on whether the FRC should take on this role, delegating appropriate activities to Professional Supervisory Bodies?

Yes. Having the FRC as the single competent authority with ultimate responsibility for audit regulatory tasks, with appropriate delegation to existing Recognised Supervisory Bodies (RSBs), may be the simplest way to address the changes required in the UK regulatory framework.

At the same time, we believe it is important that the profession has strong professional bodies. If the FRC were to take over as the single competent authority, we expect it to delegate a range of powers to RSBs in such a way that they could continue their important role in the profession.

Are we [BIS] taking the right approach in implementing a new framework on mandatory retendering and rotation of auditor appointments? In particular is the balance right between retendering and rotation?

Broadly, yes. We agree that very long audit tenures can create perception issues around the independence of audit firms. Although some have expressed concerns around mandatory tendering and rotation, we accept that more frequent tendering and switching are already part of the "new normal" for audits of PIEs in the UK.

We believe that the EU Regulation should, to the extent possible, be implemented in such a way as to be consistent with the CMA Order arising from its inquiry into the market for statutory audits of large companies.

The drafting of the EU Regulation around tendering and rotation, coupled with commentary coming out of the EC, is confusing. It does not reflect what we believe is the simplest framework consistent with the points above, which is that the maximum continuous tenure for an auditor should be 20 years and there should never be more than10 years without a competitive tender. Within that framework, companies should have the freedom to tender as often as they believe is necessary in order to act in the best interests of their shareholders, and should have the ability to reappoint the incumbent auditor.

Are we [BIS] taking the right approach in looking to the FRC to consider the extent to which options around technical and ethical standards for auditors should be taken up?

Yes. The advantages of this approach are:

- First, there will be inbuilt flexibility. Investor and audited entity views on member state options may change over time. If these were hardwired into legislation, parliamentary time would be required to make changes.
- Second, simplicity. Auditors, audit committees, boards and investors will have a 'one-stop shop' to consult, which is very helpful. For example, the FRC already restricts certain non-audit services that are not banned by EU law. If the law only enacted the EU ban, there would be confusion for all market participants as to what was permitted.
- Third, the law can only contain 'requirements'. In many cases, additional guidance may be necessary or helpful to enable consistent application. Presenting requirements and application guidance together has shown to be a successful way of providing easy-to-apply professional standards to auditors. This approach is, for example, taken by the 'clarified' International Standards on Auditing (UK and Ireland) introduced in 2010.

If you have any questions on our comments, please contact David Barnes (020 7303 2888 or djbarnes@deloitte.co.uk).

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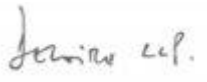
Yours faithfully



David Barnes
Deloitte LLP

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APPENDIX – RESPONSES TO THE DETAILED QUESTIONS IN THE DISCUSSION PAPER

Chapter 4: The proposals – the 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.

We believe the balance between legislative and non-legislative implementation is appropriate. It is important that FRC standards (and any relevant rules of the professional bodies) are underpinned by legislation. However, as explained in our response to your fourth key question (see above), leaving the detail to the FRC and professional bodies allows for a 'one-stop shop' (recognising that existing FRC rules often go beyond the EU legislation) which is more user-friendly for investors, auditors, audited entities and regulators, as well as allowing for more timely updating.

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.

Where applicable, our answers to the specific questions below set out our views. We agree with the Government's position on those options set out in the options tables that are not discussed elsewhere in the Discussion Paper.

Q3. In relation to the measures discussed in both this and the next chapter, what issues do you think arise that have not been considered as part of the discussion? If there are any, how do you think these should be addressed?

We believe the paper, together with the FRC's parallel consultation, addresses all of the relevant issues, recognising that it will be important for the Government, FRC and others to consult on the next stages of implementation.

Q4. In relation to the measures discussed in both this and the next chapter, we would welcome comments on any burdens applied to small and micro sized companies and audit firms in particular by the proposed implementation, which you consider are disproportionate to the wider benefits?

We do not believe that the burdens on small and micro-sized companies and audit firms are disproportionate to the wider benefits. We note that in many cases the changes in the Directive cements good practice already required by FRC standards and RSBs, and that the more burdensome changes are restricted to the audits of PIEs.

4.1 Audits of Public Interest Entities and application of the Regulation and Directive

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?

Yes.

On balance, we believe that the Government's suggested approach is the right one. For example, the costs of mandatory rotation and tendering for companies traded on AIM are more likely to outweigh the benefits, whilst in areas such as non-audit services the FRC will still have the right to add restrictions over and above those applicable to all statutory audits.

The FRC's own study of smaller listed and AIM company reporting is exploring whether restrictions on auditors of AIM companies would help or hinder quality improvements; retaining a narrow definition will allow the FRC to regulate in a way that supports the findings of their work in this area.

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?

Our comments on specific questions below address the general challenges of implementation. We agree with the Government's assessment that the two most significant challenges for entities that had hitherto not been treated as PIEs (unlisted banks, building societies and insurers) will be establishing an audit committee and ensuring auditor independence. We believe it would be helpful for the FRC to consider whether their Guidance on Audit Committees or other guidance might usefully help entities grappling with these challenges for the first time. For example, an unlisted building society that has had the same auditor for many years may be faced with running an audit tender, appointing a new auditor and replacing their provider of tax services all within two or three years.

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?

UK law relating to the audits of such entities has, broadly, already taken the approach of referring to eligibility to carry out audits under Part 42 of the Companies Act 2006. We agree that bringing these new classes of entities within the scope of the Directive is best dealt with by amending s1210 of the Act to apply to the audits of these entities. This should not lead to practical difficulties; for example, the ICAEW's Audit Regulations already treat the audits of these entities as falling within their scope and, as a result, require application of the FRC's standards.

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 believe that the majority of the costs will be incurred regardless of the choices made by the Government on member state options.

We have not produced a rigorous assessment of the costs of familiarisation:

(a) the costs of implementation on individual audits will vary depending on a range of factors including the complexity of the group, whether or not it is already listed and/or complying with the UK Corporate Governance Code, and any existing audit committee policy on non-audit services;
(b) internal management systems will require updating for changes in the Directive as well as those in the Regulation and we cannot sensibly separate these;

(c) firms that currently audit entities which are currently unlisted but which will be PIEs will bear the most significant impact. This question is best directed at such firms.

4.2 Competent authorities – Designation and delegation of tasks

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 agree that having the FRC as the single competent authority with ultimate responsibility for audit regulatory tasks, with appropriate delegation to RSBs, may be the simplest way to address the changes required in the UK regulatory framework.

At the same time, we believe it is important that the profession has strong professional bodies. If the FRC were to take over as the single competent authority, we expect it would share this view and delegate a wide range of powers to RSBs (to the extent permitted in the Directive and Regulation) in such a way that they were to continue their important role in the profession.

Whilst we recognise that, for some activities such as setting technical and ethical standards, RSBs may lose most or all of their current responsibilities, we hope that the FRC would seek to delegate significant amounts of activity to RSBs, to help ensure they remain strong and relevant.

With the FRC assuming a greater range of powers to discipline auditors, it will be important that the key features of the existing disciplinary schemes are maintained to align with the principles of natural justice including:

- independent tribunals are convened by the FRC, providing a separation between the "prosecution" (the Executive Counsel) and the "judge and jury" (the Tribunal); and
- an appeals mechanism is available.

If none of the disciplinary work is delegated back to the supervisory bodies, it will also be important to retain a mechanism equivalent to the existing consent orders used by the ICAEW's Audit Registration Committee. Without this, minor breaches in respect of audited entities with little public interest would need to be taken to a full tribunal under the Carecraft procedure, which would be significantly more costly.

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?

In practice, the arrangements for (a) setting standards and (b) for inspections, investigations and discipline in respect of the most significant audits would be unchanged – it is the route by which they have legal authority that would be simpler.

The regimes for inspections, investigations and discipline in respect of other audits may be slightly more complex. For example, the existing thresholds are set out in slightly different places for each of these activities:

- The split of inspections between the FRC and the RSBs is defined by the FRC's definition of a "major audit";
- The split of investigations and discipline between the FRC and the RSBs is defined by whether they give rise to "important issues affecting the public interest in the United Kingdom".

We believe that, insofar as the statutory regime goes, the law should require the FRC to establish policies and procedures for inspections, and to prepare schemes for disciplinary matters, but avoid prescriptive

detail. It is worth noting that many of the RSB's inspection regimes for non-major audits have a significant element of encouragement to behavioural change to drive quality improvement; it will be important that this is not lost as part of the transition.

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?

In practice, most investigations and disciplinary cases in respect of audits of PIEs are already viewed as being "important issues affecting the public interest in the United Kingdom", and are considered by the FRC's disciplinary process. Where any case is only against the auditor, there will be little change in practice.

Issues will arise when the FRC is investigating both an auditor and non-auditor member of a supervisory body in relation to the same annual report. This is because:

- the case against the auditor that their audit was defective will fall within the FRC's statutory powers;
- the case against a non-auditor responsible for the preparation or approval of that same annual report is likely to be on a non-statutory basis by agreement with the relevant supervisory body. The FRC's only statutory powers in such cases are those arising from the Corporate Reporting Review, and in particular the only financial penalties under this regime arise indirectly if the Conduct Committee applies to court for an order compelling the directors to revise defective financial statements at their own expense.

We believe that it is important that the FRC continues to have the power to pursue cases of significant public interest against non-auditor members of supervisory bodies alongside their statutory role in investigating and disciplining auditors. Work will be needed in drafting replacement schemes to ensure that:

- combined tribunals (with both auditor and directors and employees of an audited entity) can continue to be held. This is clearly helpful in terms of managing costs, the time of FRC staff and the availability of witnesses;
- the policies and procedures for the FRC's statutory role in respect of auditors and any recast disciplinary scheme for non-auditors are as consistent as possible – to reduce the FRC's costs and the length of tribunal hearings; and
- the rules under which both types of case are carried out are consistent with the principles of natural justice.

The FRC and supervisory bodies will also need to work with the Actuarial Profession to check that the recent changes which permit a combined actuarial and accounting tribunal can be extended where necessary to cover a three way tribunal covering the FRC's statutory powers in respect of audit and their non-statutory powers in respect of accounting and actuarial work. Again, this will streamline cases and provide for a consistent outcome.

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.

Yes. This would provide a system which is simpler to understand for all participants. We remind you of our comments above about the importance of delegation of significant amounts of non-PIE regulatory activities.

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?

We believe that the existing balance, whereby the FRC regulates "major audits" and the RSBs regulate other audits is appropriate. We believe that the FRC should therefore delegate their activities in respect of all non-major audits, with the presumption that they will only claw back other work where it gives rise to "an important issue affecting the public interest in the United Kingdom."

Q14. In relation to each of the tasks provided for in the Directive and Regulation, are there any tasks, or any aspects of those tasks, that you consider it is important should continue to be covered by provisions in legislation on the content of the rules of the supervisory bodies? Please provide further information in support of your answer.

We believe that legislation should be limited to the minimum required by the Directive and to give enabling powers to the FRC to make standards and rules which either (a) directly apply to auditors or (b) approve rules of supervisory bodies.

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?

Yes. We believe that:

- supervisory bodies should have the power to register statutory audits, with the FRC having a right of veto; and
- supervisory bodies and the FRC should both have the power of removal. The conditions for these will, in practice, differ – for example:
  - both bodies would need to be able to remove a member at the conclusion of an appropriate disciplinary process;
  - the supervisory body will want to be able to remove members for reasons unrelated to audit work including failures in other areas of regulated work, breaches of the supervisory body's rules relating to unregulated work and failure to pay fees.

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?

Yes. This mirrors the existing practice of the FRC to approve changes to, for example, the ICAEW/ICAS/ICAI Audit Regulations.

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 believe the existing split is largely cost effective. Our responses to the questions above seek to preserve that split as far as possible, whilst recognising that for simplicity's sake it may be better to give the power to the FRC with a power to delegate rather than drafting complex legislation for parallel jurisdiction.

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4.2 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.

We agree that the FRC's ethical standards for auditors should include:

- the subject matter of Articles 4 and 5 of the Regulation on the cap on fees for non-audit services;
- the percentage of an auditor's fee income from a specific PIE; and
- a detailed blacklist of non-audit services.
- We also agree that the revised requirements on ensuring and documenting auditor independence should be included. We support this non-legislative approach, and consider that the provision of all independence rules and guidance in one place will provide enhanced clarity and consistency of application.

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?

We suggest that:

- The first three years of the auditor's tenure should establish a baseline for the cap. Once established, a cap (updated each year on a rolling three-year basis) should continue to apply for the remainder of the auditors' tenure, even if there is a break in provision of permissible non-audit services. Whilst restarting the clock following a break in service would seem to comply with the legal interpretation of Article 4, we do not believe it would be appropriate to do so.
- The cap should not apply to an incoming auditor until its fourth year of appointment. Our rationale for this is that when there is a change of auditor, the level of audit and non-audit fees is frequently atypical (for example because the incoming auditor may need to perform extra work to comply with ISAs 510and 710, and because non-audit services carried out by the incoming auditor may need to be completed or put into run-off.
- The cap should not apply to an entity becoming a PIE for the first time until its fourth year as a PIE The most common mechanism for an entity to become a PIE will be through an initial public offering (IPO) on an EEA regulated market. The level of audit and non-audit services immediately before and after an IPO may well be atypical because:
  - non-audit fees are likely to spike in the year of the IPO as a result of reporting accountant work carried out in connection with the IPO. Whilst some of this work would be required by regulation and therefore outside the cap, other work such as the provision of comfort letters and associated "long form" reporting to sponsors in connection with their responsibilities under the Listing Rules is not. This could well lead to a breach of the cap for every entity undertaking an IPO. We have argued elsewhere that the work in connection with private reporting should also be excluded from the calculation of the cap, which will help to alleviate this particular concern; and
  - audit fees for the pre-IPO years are likely to have been lower.

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 believe that this is unlikely to apply in practice given the existing restrictions on income from one client in the FRC's Ethical Standards.

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?

We agree that the FRC should have the ability to exempt an audit firm from the 70% cap for permissible non-audit services for up to two financial years on an exceptional basis. This will address circumstances where stakeholders would agree that the auditor is clearly the most appropriate provider of the non-audit services, but the cap would prevent them from doing so. The exemption should be considered by the FRC based on the individual circumstances, following application by the audited entity. It would be helpful, in due course, for the FRC to publish examples of the types of situation that they believe exemption from the cap will be inappropriate (for example, much consulting work where there are often a broader range of alternative suppliers) and appropriate (for example, reporting accountant work in connection with Class 1 transactions or similar where the company's statutory auditor is often best placed and the provider is required to be independent in accordance with the FRC's own Ethical Standard for Reporting Accountants).

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.

Yes. This would allow joined up guidance for investors, auditors, audited entities and those charged with their governance.

In our response to the FRC, we have supported a 'blacklist' approach as opposed to a 'white list'. Nevertheless, we have made some suggestions to the FRC as to the contents of a 'white list' if the outcome of their consultation supports that approach. Our response to the FRC also calls for clarification of some of the provisions of the Article in a UK context. For example, it would be helpful for the FRC to clarify how the work of reporting accountants in the contexts of prospectuses, circulars and similar documents is addressed by the blacklist by reference to specific requirements in the UK Listing Rules and FRC's own Standards for Investment Reporting. This level of detail would be too complicated for inclusion in the law.

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?

There remain some uncertainties as to the correct application of the EU Regulation in respect of prohibited non-audit services which require further clarification to avoid inadvertent breaches:

Implementation of the prohibited non-audit services 'cooling off' period for design and implementation of systems

According to Article 5.1(a), the prohibited non-audit services rules apply between the beginning of the financial year audited and the issue of the audit report. In its questions and answers issued on 3 September 2014, the EC confirmed: *"For instance, as the new EU regulatory framework will be applicable on 17 June 2016 and that the financial year of a PIE ends on 30 June 2016, the first audit report to be produced under the new EU regulatory framework would cover the financial year ending on 30 June 2017"*

Furthermore, *'designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems'* are prohibited for the financial year immediately preceding the period between the beginning of the period audited and the issue of the audit report.

Using the dates in the example above, one interpretation of Article 5 could imply that for the companies with June year ends, the auditor should have ceased to provide these services by 1 July 2015. Similarly such companies will need to identify potential auditors that could be 'clean' from providing these services for their accounting year starting on 1 July 2015 if they are planning to put their audit to tender for the accounting year commencing 1 July 2016.

We would welcome further clarification on when the 'cooling off' period starts to apply for these services due to the potential immediate impact on these companies.

Application of the prohibited non-audit services rotation rules where the PIE makes an acquisition

If we consider a scenario where a PIE entity X acquires another non-PIE entity Y, to which X's auditor was already providing prohibited non-audit services, there is uncertainty as to when the non-audited services to Y should be terminated.

Article 22 of the Directive *'Independence and objectivity'* includes general independence requirements and there is specific reference to non-audit services in Paragraph 6. This provides that the auditor is required to terminate the non-audit services as soon as possible and at the latest within 3 months from the date of the acquisition. Auditors are required to do everything possible to limit the impact on the independence of the audit from the outset. However, it is not entirely clear that this three month period applies to the prohibitions relating to non-audit services as set out in Article 5 of the Regulation.

We suggest that the competent authority provides clarification of the independence rules in the event of a corporate transaction.

Q24. Do you agree that implementation of the revised requirements on ensuring and documenting auditor independence in the 2006 Directive should be implemented primarily via the ethical standards, with amendments to the existing legislation as necessary only to:
- **underpin the standards; and**
- **introduce simplifications for audits of small non-PIEs?**

Please provide further information to support your answer.

Yes. Given that there are some areas where the existing FRC ethical standards are more restrictive than the Regulation and Directive, and that we do not believe the FRC should relax any of these, it would be helpful to put all of the requirements in one place.

Q25. Do you agree that the existing framework on disclosure by PIEs in notes to their accounts of the audit and non-audit fees they paid their auditor should be adapted, to ensure public disclosure of the information the auditor is required to provide to the competent authority under Article 14 of the Regulation? Please provide information to support your answer.

Yes. The proposed disclosures largely align with current market practice and Companies Act 2006 requirements, with the exception of breaking down the revenues from permissible non-audit services as revenues which are required by European Union or national legislation and which are not.

In order to improve the usability of such disclosures by shareholders, we suggest that:

- the disclosure should also facilitate the identification of services which require the practitioner to be independent (broadly those in Article 14 (a), some of (b) and some of (c)), where the presumption should be that the auditor could be appointed, and those which do not (some of those in Article 14 (b) and (c)), where the presumption should be that the audit committee needs to justify why the auditor has nevertheless been appointed;
- the existing treatment of subsidiary audit fees as non-audit services should be revisited; and

- as the existing regulations apply PIEs and non-PIEs, provision will continue to be needed for services prohibited by Article 5 but permitted by the FRC's Ethical Standards for unlisted companies.

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?

During its investigation into the Large Companies Statutory Audit Market, the CMA took into consideration a significant analysis of the nature and size of non-audit services provided by auditors to their audited entities, in addition to case studies, market research and inquiries with the stakeholders, including the audit committees. They observed that companies' audit committees have a high level of awareness of whether an audit firm's independence may be compromised. In recent years audit committees have increasingly erred on the side of caution and as a result the amount of non-audit work sold to audited large PIE entities has declined.

4.4 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?

Taking the three situations identified in turn:
- We agree that it may be impractical for an audit committee recommendation to be made prior to a company's first accounts meeting. In practice this situation will rarely arise as few companies are PIEs at this stage of their lifecycle.
- We believe further thought may be needed in the situation of a casual vacancy. If the vacancy is unexpected, for example because the incumbent auditor has found themselves not to be independent part way through the year end audit, there may not be time for the audit committee to make a recommendation if the annual results are to be released on time. However, historically many routine changes of auditor have been the result of a casual vacancy (by asking the incumbent to resign) – although this will not be the case when the maximum tenure is reached. On balance, an appropriate safeguard will be the role of investors who can vote against reappointment of both the auditor and members of the audit committee or wider board if they are unhappy.
- We agree that the Secretary of State should retain his or her reserve power to appoint when the company has failed to do so.

Q28. Where the PIE is exempted from having an audit committee (e.g. 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?

For the reasons set out in chapter 5.4 of the Discussion Document, far fewer companies will be exempted from the requirement to have an audit committee. We agree that for companies that do not, the directors should determine the recommendations that should be put to shareholders of the audited entity.

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?

Yes. We believe that whether auditors are single or joint the principles set out in our response to Q30 and Q32 should apply.

Q30. We are considering whether provision should be made so that, where a PIE has stated in its annual report it will appoint an auditor based on a tender process before the expiry of the maximum duration of 10 years, it should still be able to take advantage of an extension of the maximum duration beyond ten years, following that tender. Do you agree?

Yes. We believe that companies should not be discouraged from tendering before ten years if this is in the shareholders' best interests.

We suggest that the law should be drafted in as simple a way as possible such that the auditor of a PIE:

- cannot serve more than ten continuous years without a tender; and
- cannot serve more than twenty years continuously.

For example, if a company has tendered after seven years (see also our response to Q32), the appointment should be able to continue up to year seventeen without a further tender. The Discussion Document raises the question as to whether this is compatible with the Regulation's requirement for a tender to "take effect after year 10" without requiring a second tender for year 11. We believe it is possible to interpret the Regulation this way by viewing the tender as being for:

- a period of three years (years 8, 9 and 10); and
- a period of up to seven further years (years 11-17), provided that no further tender has taken place before the end of year 10.

Phrased in this fashion, the tender takes effect at the end of year 10.

Q31. We are seeking views on the proposal that for companies that are PIEs the company's plans on retendering should be part of a new element of the annual report setting out key matters for the audit committee on the appointment of auditors. Do you agree that the report should include:

a) when the current auditor took up the audit engagement at that company?
b) when the audit engagement was last retendered?
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?
d) the directors' reasons for considering that the proposed year is in the best interests of the company's members?

Do you consider that any other information should be included in addition the above? Please provide further information to support your answer.

Yes. It is worth noting that (a) will also be disclosed in the auditors' report under Article 10 2(b) of the Regulation. The Government's proposals will bring all this information together in one place.

We disagree with the Government's suggestion that (c) should be binding on the company when a tender is reported to be planned for the next year but one (assuming that this is before the latest point at which a tender can be run). Whilst unusual, there could be a situation where a tender would be unhelpful – for example: where a PIE receives a takeover bid in the year it announced it planned to run an audit tender, management and the audit committee may not wish to spend time during the offer period carrying out an audit tender and, indeed, may anticipate that if the offer is successful, the purchaser will appoint their own auditor.

We suggest instead that point (d) be expanded to say "… the proposed year (and any change to a proposed year announced in a previous annual report)… is in the best interests…" This would require companies to justify any acceleration or deferral to members.

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 (e.g. at 7 years), the next tender process should be expected to take effect:
(a) after the same period has expired again (i.e. year 14 in this example);
(b) after a further 10 years has expired (i.e. 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 (i.e. in this example at year 14 though this could be extended to year 17)?
Which option would you prefer?

As set out in our response to Q30, we believe that a simple rule would be that the auditor of a PIE:

- cannot serve more than ten continuous years without a tender; and
- cannot serve more than twenty years continuously.

Accordingly, we support option (b) (whilst clearly not precluding an earlier tender if appropriate), with the potential to extend the appointment for a further three years (to take the auditor to twenty in total) if a second tender is undertaken.

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?

We believe that, as long as the FRC's existing sanctions guidance is updated to reflect Article 30a of the Regulation, a proportionate and dissuasive sanctions regime will result.

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?

We believe that the most robust evidence for (a)-(c) is set out in the final report of the CMA's Statutory Audit Enquiry. Whilst this data refers to FTSE 350 companies, it is worth noting that some basic costs will apply regardless of the size of PIE (for example, the audit committee needs to make enquiries about the candidates' quality assurance systems and read the responses irrespective of scale).

Deloitte.

Further issues relating to chapter 4.4

We have considered the BIS paper *Auditor Regulation – Supplementary Information*. The Government has explicitly sought views in relation to two of the Q&As*:*

- For Q&A 13, we believe that a tender carried out for a financial year beginning before 17 June 2016 should count towards the requirement to tender at least every ten years. Article 16 was only finalised in early 2014, yet some listed companies had held earlier tenders in anticipation of the 2012 UK Corporate Governance Code; we believe that forcing such companies to hold a second tender in 2016 would be disproportionate. The criteria for such a tender should be that set out in the CMA Order, as quoted in Q&A 14. This would ensure that a proper exercise was carried out without requiring that that tender complied in full with Article 16(2)-(5), which could not have been within an audited entity's contemplation prior to May 2014. We believe the same position should apply in the circumstances set out in Q&A 15.
- For Q&A 22, we believe that the wording of Article 30a of the Directive requires that all of these sanctions must, in theory, be available to the FRC (assuming that it is the competent authority). Q&A 22 sets out the Government's view that sanctions akin to those for a breach of the CMA Order would be appropriate; we believe that this would be possible under Article 30a(1)(a) and (b).

We believe it would be helpful for the FRC to issue guidance as contemplated by Q&A 21. Whilst Article 17(8) is only engaged when an auditor refers an uncertainty to the single competent authority (as explained in Q&A 20). An auditor may be open to challenge if the FRC were to subsequently disagree with the auditor's view that there is no "uncertainty as to date", and hence not reported that uncertainty. This is particularly true if the FRC agrees with the position set out in Q&A 18.

We suggest that BIS also works with the CMA to consider the extent to which the overlapping effects of the CMA Order could be combined with the requirements of the Regulation, resulting in a single source for the rules on tendering and rotation for auditors, companies and audit committees. For example:

- both the Order and the Regulation require a tender at least every ten years;
- the transitional provisions of both are aligned;
- the Government's proposal that companies should always set out why their proposed year of tender is in the interests of shareholders is tougher than the CMA Order as it applies every year; the CMA Order has the same requirement but only where a tender is to be held less frequently than every five years; and
- the requirements on audit committees are broadly similar but use different language to achieve the same ends.

Finally, the 2012 UK Corporate Governance Code and anticipation of the coming into force of the CMA Order and the Regulation has seen a significant increase in the appointment of new auditors by UK groups. We welcome the changes to be introduced in the Deregulation Act, which will reduce the costs to groups of removing an outgoing auditor. We suggest that the introduction of the Regulation could also deal with the practicalities of appointing an incoming auditor to a group of companies. Most UK incorporated subsidiaries of UK listed groups are limited companies and have dispensed with the requirement to hold general meetings. Accordingly, the directors will normally appoint the incoming auditor to fill a casual vacancy. The effect of s487(2)(a) of the Companies Act 2006 precludes deemed re-appointment of the auditor for year two of their term, requiring the members of the company to re-appoint by written resolution or holding a general meeting. We suggest that s487(2)(a) could be repealed, or at the very least disapplied in the case of 100% owned subsidiaries.

4.5 Audit reporting and additional 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?

None.

Extant ISA (UK and Ireland) 570 requires an emphasis of matter paragraph in such circumstances. Adoption of the IAASB's newly issued ISA 570 (Revised) *Going Concern* will require the statement required by law.

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.

Yes. We believe that this will also allow the FRC to adopt ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* in a manner which also allows for retention of the additional matters included in extant ISA (UK and Ireland) 700 which respond to the UK Corporate Governance Code.

Q37. What issues, if any, do you consider arise from the application of the provisions of the Regulation on the audit report? If there are any, how do you consider they should be addressed?

There is a difference in terminology between the way in which the extant ISA (UK and Ireland) 700 is phrased in terms of risks and the terminology of Article 10. We believe that adoption of ISA 701, with suitable supplementation, could bridge this gap, whilst not losing any of the benefits of the existing UK regime.

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)?

Yes.

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?

Many, if not all, of these requirements are already present in ISA (UK and Ireland) 260, whether in the IAASB's material or the UK supplementation. We envisage few issues in practice in applying a revised ISA (UK and Ireland) 260 with additional supplementation to cover the small number of additional requirements.

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?

We believe that the costs are likely to be low for existing premium listed companies (and those others voluntarily complying with the UK Corporate Governance Code). For such companies, existing UK standards cover many of the requirements of both Article 10 and Article 11.

There will be an impact for PIEs that do not currently apply the UK Corporate Governance Code:

- Article 10: This will be all new to such PIEs. We estimate that the time taken to draft, review and present an existing UK enhanced audit report is of the order of 10-15 hours. Audit committees probably spend an hour or two debating the report.
- Article 11: We estimate that for large PIEs, many of the existing provisions of Article 11 will already be covered in existing reports to those charged with governance. The additional time taken is likely to be single figures of hours for auditor, management and audit committee. For smaller PIEs, we estimate it will be approximately five to six hours for the auditor, an hour or two for audit committee members to read the report and prepare for a meeting, and an hour or two debating the report.

4.6 Further consultation – The small companies audit exemption limit

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)?

We support view (a). In our response to your earlier consultation on implementation of Chapters 1-9 of the EU Accounting Directive, we welcomed the idea that the small companies accounting regime, narrative reporting exemptions and audit exemption thresholds remained aligned. This has the merit of simplicity for preparers of financial statements, whilst still allowing voluntary audit for those companies that wish to do so. However, we remind you of our comments in our response to that consultation and your earlier 2012 consultation on audit exemption, in which we noted that there is still a difference in that:

- for the small companies accounting regime and narrative reporting exemptions, the group headed by the company must itself be small; and
- for audit exemption, the largest group of which the company is a part should be small.

This does not appear to be required by the Accounting Directive nor the Audit Directive. The result of this gold-plating is to force a number of small companies which are part of larger groups to have an audit unless they avail themselves of the subsidiary company audit exemption, which requires a parent company guarantee from an EEA incorporated parent. We are aware that other EEA jurisdictions do not gold plate the Directives in this fashion, making them a more attractive venue for incorporation of European subsidiaries of non-European headquartered groups. This difference also leads to complexity in the drafting of legislation.

Chapter 5 The proposals – Other changes

Q42. What issues, if any, do you consider arise from the measures considered in this chapter? If there are any, how do you consider these should be addressed?

We have set out the issues raised in the relevant questions below.

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?

We have no quantification of the costs and benefits of the measures in this chapter, although we believe that, given the technical nature of these changes, for the majority of public interest entities the costs will be relatively low.

Deloitte.

5.1 Technical standards for statutory audits

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. Whilst the engagement quality control review requirements of the Directive and Regulation are extensive, they do not include all the matters covered by existing UK standards ISQC (UK and Ireland) 1 and ISA (UK and Ireland) 220. Bringing all of the requirements together in one place can only improve audit quality.

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?

We have no information on this as it will not affect our firm.

5.2 Technical standards – International auditing standards

Q46. What issues do you consider arise from the implementation of EU adopted ISAs in the UK that UK representatives should raise with the European Commission?

We believe that:

- the European Commission should resist the temptation to remove any of the requirements set out in the standards issued by the IAASB;
- care will be needed in distinguishing between the requirements of standards (which should be mandatory for auditors unless they are explicitly conditional "If… then the auditor shall…") and the application material. Failure to apply application material may raise questions of audit quality, but regulators will need to recognise that it is only application material and in some situations for some audited entities, there may be alternatives ways to comply with the underlying requirements.

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; 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?

(a) Yes. We believe the FRC should be able to set standards in areas not covered by EU adopted ISAs for two reasons. Firstly, we agree that the public interest may be served by having a standard in an area where the IAASB has not set a standard, for example the existing ISA (UK and Ireland) 250 Part B which deals with the important topic of reporting to regulators. Secondly, we believe that if the IAASB issues a standard in an area of urgent need, the FRC should have the option of requiring its application by UK auditors in advance of EU adoption.
(b) Yes. We believe the FRC should have the power to impose such procedures and requirements. We note that the FRC is influential in the development of the IAASB's standards, and that as such there has been a marked decrease in the need for, and hence existence of, "pluses" to IAASB issued standards. However, we believe that it is important to be able to retain "pluses" in areas such as interacting with the board's application of the UK Corporate Governance Code or responding to the requirements of the Companies Act. "Pluses" without such a linkage, i.e. purely on grounds of quality,

are not without cost (not least in providing for consistent application in a multinational group audit), but should not be ruled out when developed after due process including a cost/benefit analysis.

5.4 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)?

Boards will need to document their rationale for the audit committee's competence in the sector in which the audited entity operates. This may prove challenging in some more obscure industries, but is unlikely to be insurmountable.

We suggest that, in addition to the FCA amending DTR 7.1, the FRC should revise its Guidance on Audit Committees to assist audit committees in discharging their obligations.

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?

Many of the largest unlisted PIEs already have a suitable audit committee, having regard to the guidance in SYSC 3.2.15G in the PRA Handbook. For smaller PIEs, it may be more challenging to identify suitably qualified individuals. We suggest that the PRA should consult on this requirement soon, in order to raise awareness and allow unlisted PIEs to consider the requirements as part of an orderly board succession plan over the period to 2017.

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?

We believe the PRA would be best placed to provide information on (a), and existing PIEs with voluntary audit committees to provide information on (b) and (c). We believe (d) will be low, given that at present if there is no audit committee the auditor must interact with the wider board already; the more significant changes will come from applying Articles 10 and 11 of the Regulation (see above).

5.5 Regulatory reporting and information – Report to supervisors of PIEs

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?

Yes, subject to the PRA and FCA agreeing that this is a sensible policy. As an alternative, the PRA and FCA could be obliged to provide information to the FRC, as the single competent authority, as soon as it is practicable to do so without harming their regulatory objectives.

We note that banks, building societies and insurers are regulated prudentially by the PRA and for conduct by the FCA, so that the auditor should be obliged to report to one or both regulators as appropriate. Other PIEs, supervised by the FCA alone or the FCA and PRA, should be treated similarly.

Our biggest concern is the concept of a "supervisor" for an "other PIE" that is not a financial services entity regulated by the PRA, FCA and/or Payment Services Regulator, for example, a manufacturing company with listed shares. Such companies typically do not have a "supervisor". It is unclear whether this means that the UK Listing Authority (the FCA acting in its capacity as such) should be viewed as a supervisor to whom any breaches of laws and regulations should be reported. In particular, given the lack of materiality threshold in Article 12 of the Regulation, guidance may be needed on the form and timing of such communications to avoid the UKLA being swamped with notifications in areas which it has no competence to act in, and which do not give rise to an obligation to make an announcement to the market.

Q52. For the purpose of our impact assessment on these changes we should be grateful for any estimates you can provide of:
(a) the costs of the auditor providing this information to supervisors of PIEs?
(b) the frequency with which the PRA is provided with this information for banks building societies and insurers under existing requirements?
(c) the frequency with which the FCA is provided with this information for other PIEs in practice already?

We do not collect the costs of compliance with such obligations separately.

5.8 Recognition of statutory auditors from another Member State

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?

Yes, for two reasons:

- As we move towards wider adoption of IFRS and the use of EU adopted ISAs, the differences between audits carried out in different member states will also narrow. An adaptation period is well-suited to dealing with these narrower differences; and
- A contributing factor to audit quality is industry knowledge. It is a feature of the audit markets in several countries that some industries are served by only one or two firms. Given the increased rate of change in auditor as a result of mandatory tendering and rotation, and the requirement in the Regulation that an audit committee nominates at least two potential successors, it will become more common to see partners redeployed across member firms of a network (or, indeed, to switch networks) in order to provide the necessary expertise.

Giving the FRC the choice in this area does not compel them to adopt adaptation periods; it will enable them to consider which option(s) are most suitable to deliver audit quality.

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;
(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?

We believe that establishing the detailed content of aptitude tests, within the parameters of the Directive, is an area suitable for delegation to the supervisory bodies, with little impact on operational provision. The operation of adaptation periods, if introduced, is also suitable for delegation; the process is likely to be similar to that used for existing individuals with a UK accountancy qualification to undertake sufficient practical experience to obtain the "audit qualification".

As noted in our response to Q53, it is more likely that audit partners will move around and between networks, perhaps several times during their career. Accordingly, we welcome the idea of CEAOB progressing discussions with a view to convergence across the EU. We believe that the FRC will have an influential voice in these discussions, balancing the need for familiarity with national requirements with the need for industry knowledge.