Department for Business Innovation & Skills

AUDIT REGULATION

Discussion document on the implications of the EU and wider reforms – Response Form

DECEMBER 2014

Regulation on the Specific Requirements Regarding Statutory Audit of Public Interest Entities and Directive amending Requirements on Statutory Audits of Annual Accounts and Consolidated Accounts

Discussion document response form

The Department may, in accordance with the Code of Practice on Access to Government Information, make available, on public request, individual responses.

The closing date for responses is 19 March 2015

Name: James E Barbour, Director, Technical Policy
Organisation (if applicable): ICAS
Address: CA House, 21 Haymarket Yards, Edinburgh, EH12 5BH

The form can be submitted by email or by letter to:
Paul Smith
Corporate Frameworks, Accountability and Governance
Department of Business, Innovation and Skills
1 Victoria Street
London,
SW1H 0ET

Tel: 020 7215 4164
Email: pauld.smith@bis.gsi.gov.uk

Please tick a box from the list below that best describes you as a respondent.

	Business representative organisation/trade body
x	Non-government standard setting/**regulatory body**
	Charity or social enterprise
	Individual
	Large business (over 250 staff)
	Legal representative
	Local Government
	Medium business (50 to 250 staff)
	Micro business (up to 9 staff)
	Small business (10 to 49 staff)
	Trade union or staff association
	Other (please describe)

Background

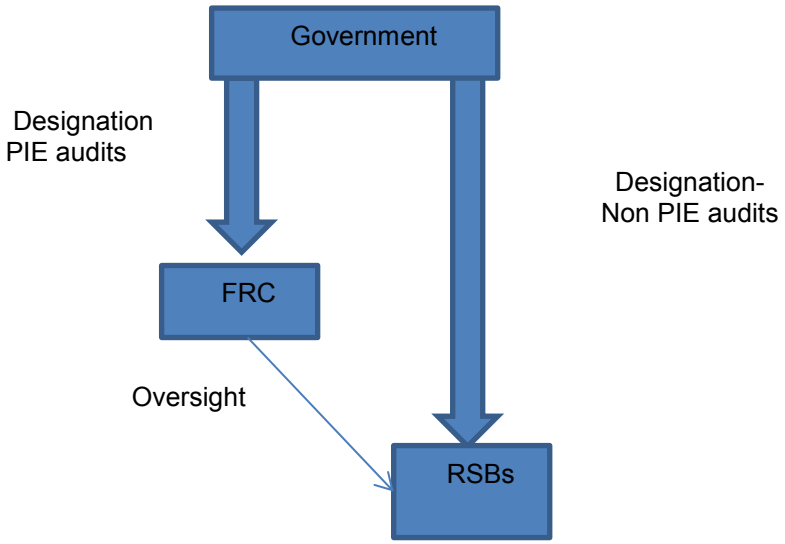
ICAS welcomes the opportunity to comment on the BIS "*Auditor Regulation: discussion document on the implications of the EU and wider reforms*". Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key Points

Competent Authority: delegation not designation
One of our main concerns is the proposal to designate only a single competent authority. We consider this to be 'gold plating' the Audit Directive and Regulation and we urge BIS to consider an alternative model whereby the Recognised Supervisory Bodies continue to be designated in law for non-Public Interest Entity (PIE) audits.

Therefore, we would propose an alternative model which we consider meets the Government's objectives. This is, as set out in the diagram below:



Our proposed alternative model would be:

- The Government designates the FRC as the 'competent authority' responsible for PIE audits (and possibly other 'major audits') and professional oversight. The FRC would require to comply with non-practitioner governance requirements. The responsibility for PIE audits would include regulation-setting, audit approval, inspection, investigations and discipline. The oversight function could also include responsibility for CPD for PIE engagement leads, if the FRC considers that additional competence requirements are needed. (If the FRC requires to delegate any of the PIE work this can be delegated to the RSBs).
- The Government designates the RSBs, in law, as 'competent authorities' for non-PIE audits. The RSBs retain full responsibility for audit approval, inspection, investigations, discipline and CPD for non-PIE auditors. The bodies are subject to oversight by the FRC, who approves the RSBs' audit regulations.

We consider that this alternative model meets BIS' three key considerations set out in the discussion paper:

- **Improving the effectiveness and reinforcing confidence**: it is clear that the FRC focus is on supervision and on PIE audits, allowing the FRC to demonstrate public interest.
- **Simplicity**: we consider that the public would understand this scheme better than a more complicated framework where there is delegation and 'take back'.

- **Reducing regulatory burden**: the simplicity ensures that costs are kept low, and the RSBs, who have years of experience, can continue to operate audit regulation of non-PIE audit work on a cost effective basis. The more expensive FRC resource would not be diverted from its main public interest role.

We would remain strongly opposed to any regime in which the RSBs lost their statutory footing and became mere "agents" of the FRC. There are important aspects of the RSB regime which should be retained where possible. This includes audit approval, CPD, inspection and discipline action in relation to all non-PIE audits as defined in the Directive. We would encourage BIS to fully explore all of the options provided for under the terms of the Directive and Regulation. There is great value in maintaining a respected and robust audit regulatory regime which is not overly "centralised" in a single entity.

However, if the single competent authority model were to proceed, we would encourage a regime which does not diminish the role of the RSBs, who should retain responsibility for all aspects of audit regulation relating to non-PIE audits (including setting regulations, audit approval, inspection, complaints and discipline). This would enable the FRC to concentrate on public interest entities which is their area of expertise. Provision is also made in the Directive and Regulation for the single competent authority to reclaim tasks which are delegated on a case by case basis which would allow anything to be brought into the scope of the FRC should it be considered to be public interest (please refer to our response to Q13).

We recognise that some aspects of PIE work could be delegated to the RSBs. Arguably, points of entry to the market are as important as quality assurance and discipline but we acknowledge that the Directive and Regulation don't prohibit delegation of licensing for PIE audit by the competent authority. We recognise that the views of the RSBs may vary on this matter. However the scheme of delegation for PIE and non-PIE is resolved, we believe that there could be a clear segregation of responsibilities for PIEs and non-PIEs. This would be a transparent system for the general public to follow and understand. This could also allow for fairer and more proportionate oversight where each authority/body is responsible for the area in which it specialises.

Definition of a PIE
We believe that the UK Government should not expand the definition of a PIE beyond the EU minimum requirement.

Audit Exemption
We believe that the benefits of retaining a lower audit exemption threshold outweigh the related costs of not increasing this threshold in line with that used for small company financial reporting purposes. We believe that there is added value to stakeholders in having the financial statements of an entity audited and the suggested increase in the audit threshold to the maximum level permitted may have a negative impact, particularly in light of the forthcoming changes to small company accounts, on the quality of financial information produced. The current changes to the financial reporting framework are significant and will take time to bed down. Our experience in the past, from audit inspections, has been that even minor changes to financial reporting frameworks can lead to confusion amongst financial statement preparers. Increasing the audit threshold at a time of such significant financial reporting changes, where there is a tiered approach and choices to be made in relation to which standard to be adopted, means that there will be less 'policing' of the correct adoption of accounting standards. Such entities will fall out of statutory audit monitoring and whilst the RSBs also operate non-statutory monitoring of accounts preparation, not all preparers will use regulated accountancy firms. 'Unqualified' accountancy firms are not regulated and financial statement preparers may not elect to use accountancy firms at all.

We also have concerns that increasing the thresholds for audit purposes will lead to fewer smaller audit firms remaining in that market. This will reduce the pool of auditors available to charitable entities, the audit exemption thresholds for which are set at a much lower level. This is likely to lead to charities having to pay more for an audit.

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.

We are supportive of BIS' proposed balance between legislative and non-legislative implementation of the requirements of the new Directive and Regulation. Where provisions in the EU legislation clearly relate to matters currently covered by the Financial Reporting Council's (FRC) standards, then it appears sensible to allocate such matters to the FRC for it to revise the relevant standards as necessary.

Under the proposed measures, the status of the FRC will change and it will be given greater powers. As such, if this approach is adopted, then it would appear to be in the public interest for consideration to be given to introducing an appropriate oversight mechanism for the FRC to help ensure that it undertakes its role in a responsible manner with proper accountability to Government. This will also necessitate a review of the structure and governance of the FRC.

The impact of the proposed changes on business also needs to be considered. BIS is clear that it will seek to introduce the EU measures in a way which seeks to minimise the related burden on business. Consideration, therefore, has to be given to ensuring that the ethos adopted by BIS is replicated by the FRC in relation to its proposed powers.

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 the discussion document and in specific questions, all the options in the Directive and Regulation are considered in the options tables that are being made available separately.

We believe that all of the important matters are directly covered by either this discussion document or the separate FRC consultation paper. One of our main concerns is the proposal to designate only a single competent authority. We consider this to be 'gold plating' the Audit Directive and Regulation and we urge BIS to consider an alternative model whereby the Recognised Supervisory Bodies continue to be designated in law for non-Public Interest Entity (PIE) audits.

Also, it is essential that, where possible, the UK Government should seek to minimise the impact on business associated with having to introduce the necessary legal and regulatory changes.

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?

There are no further issues that we would like to highlight.

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 would like to highlight that we believe that the FRC should retain its 'Provisions available for small entities' ethical standard. This confers useful proportionate concessions to the auditors of small entities.

Q5. Do you agree that the Government should not expand the definition of a PIE beyond the EU minimum requirement – that is listed companies, banks, building societies and insurers?

☒ Yes ☐ No ☐ Not sure ☐ Not applicable

Please provide information in support of your answer:

Yes. ICAS welcomes the Government's stance and would support the view that there should be no expansion of the definition beyond the minimum requirement. This will allow the focus to remain on key, higher profile and higher risk audits and will ensure that resources are appropriately employed to address the public interest risk. ICAS is also of the view that as the EU scope has already been expanded to include non-listed insurers and some unlisted banks, no further entities are required to be designated as PIEs.

The FRC, which is proposed as the single competent authority in this discussion paper, indicated in its recent "*Draft Plan & Budget and Proposed Levies 2015/16*", its intention to increase its resources in light of the Competition Commission's recommendations to review more FTSE 350 audit engagements. The proposed increase in resource will increase the FRC's Audit Quality Review (AQR) costs in 2015/16 by 29% over the estimated 2014/15 costs. These costs are borne by the audit professional bodies in the first instance. Continued expansion of the FRC and Audit Quality Review (AQR) on this basis is not sustainable, unless a new funding formula is approved.

We therefore consider that the Government should not extend its definition of PIE which could have further significant unwarranted cost implications for the profession and ultimately wider business.

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?

The definition of a Public Interest Entity (PIE) in the Directive includes an entity "that issues transferable securities that are admitted… on a regulated market'.

We consider that this definition captures entities listed on the London Stock Exchange and on the ISDX Main Board but not those listed on AIM or ISDX Growth markets. We would welcome clarity in relation to these markets.

We believe that the UK Government should retain the definition of 'regulated' stock exchanges and therefore entities with shares listed on other recognised, but not regulated, exchanges should not be defined as PIEs. Nor should they be included within the FRC's 'major audit' scope which is published annually, unless there is a specific public interest risk. We would refer you to our response to the FRC for further comment on this issue.

In the view of ICAS, the objective of the AIM and ISDX growth markets is to encourage growth and ready access to capital markets for small and medium entities. It would be in the interests of the public to exclude these markets from the PIE definition in order to encourage growth without adding the additional regulatory burden, costs and challenges associated with being a PIE.

Further, this would allow the competent authority responsible for PIE audit regulation, the FRC, to apply a risk based model and devote the resources to the higher risk quoted companies.

We would encourage BIS to consult with the FRC on the extent to which its future scope should cease to include "major public audits" which do not fall within the definition of a PIE. If the FRC is ultimately designated as the competent authority responsible for PIE audit regulation, then this change will ensure that the FRC's focus is true to the spirit and wording of the Regulation.

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?

ICAS cannot foresee any significant issues with the need to broaden the scope of the 2006 Directive (as amended), to include the above entities.

We believe such entities could be considered to have a public interest element given they are primarily involved in e-money and investment vehicles. Their inclusion brings audit regulation up to date with the developments in the investment markets, in e-commerce, and in relation to wider EU regulation of these markets. These changes are therefore necessary as part of the modernisation of audit regulation.

As stated in the discussion paper, many of these entities will already be subject to audit requirements due to their size and legal status.

Many of these entities are specialist and highly regulated and the audits will require to be undertaken by auditors with specialist knowledge. The competence of auditors involved in such audit work, and the resulting audit quality, will require to be considered carefully as part of audit monitoring.

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?

The introduction to this consultation highlights that it should provide an opportunity to contribute to Government thinking and consider how the full range of reforms could work.

It may be impossible to quantify in monetary terms or in hours, the cost of preparing and implementing the changes until the full impact of such changes are known.

Whilst the consultation responses from audit firms ought to provide Government with a more informed view of the likely impact and costs for re-tendering and rotation requirements, there are still a significant number of unknowns which would have a significant bearing on any impact analysis, such as the definition of a PIE and the impact of any significant changes to the regulatory landscape.

It is particularly difficult to quantify the potential impact if FRC were to become the single competent authority. This will depend significantly on whether the FRC intends to dramatically change its modus operandi or not. Were the FRC, for example, to adopt more punitive measures against PIE auditors, and possibly the RSBs, this would have significant, as yet unquantifiable, costs.

(b) what are the costs to audit firms of updating internal management systems to reflect the changes?

Please refer to our response to Q8 (a) above.

(c) How this is likely to vary by size of audit firm?

It is evident that the impact of the changes will vary significantly by size of firm for a number of reasons:

- The very largest firms will have to consider the impact of audit firm rotation and retendering rules, alongside the impact of the provision of non-audit services.
- Firms with less than 10 PIE audits will be affected similarly by audit firm rotation, tendering and non-audit services, and will be impacted by the reversal of the delegation of monitoring of firms with ten PIE audits or less to the RSBs. Over the last two years the RSBs have proven that they are able to undertake the inspection of these firms in an effective and efficient manner, which has freed FRC's resources to concentrate on the larger firms with PIEs. The removal of this delegation is likely to increase regulatory costs.
- Any small firms involved in the PIE market are likely to review their engagements. Coupled with the proposed increase in the audit exemption threshold, a number of firms may no longer find audit a viable market to remain in.

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?[1]

☐ Yes ■ No ☐ Not sure ☐ Not applicable

Article 32 of the Audit Directive requires that "*Member States shall organise an effective system of public oversight for statutory auditors and audit firms based on the principles set out in paragraphs 2 to 7, and shall designate a competent authority responsible for such oversight.*"

It is clear from Article 32 that one 'competent authority' requires to take responsibility for oversight. As the FRC currently undertakes the role of public oversight, we consider that it is the most appropriate candidate for having 'competent authority' responsibility for oversight.

However, the consultation paper has been prepared on the premise that BIS proposes to designate FRC as the **single** competent authority in the UK. Whilst mention is made in the discussion paper of the option to designate, in law, other 'competent authorities' the model proposes to designate only the FRC as the single authority, with tasks delegated to other authorised bodies/authorities. Under this proposal, all current Recognised Supervisory Bodies (RSBs) would lose their statutory footing.

We consider that any proposal to recognise a **single** competent authority, for all audit regulation in the UK, is "gold plating" the requirements of the EU Directive and Regulation.

Whilst we accept that article 24 of the Audit Regulation (which legislates the regulation of PIE audits only) ensures that responsibility for the quality assurance and investigations of PIEs must rest with '**the** competent authority', the Audit Directive, which covers all audits, allows Member States to "*designate **one or more** competent authorities to carry out the tasks provided for in this Directive*". There is, therefore, in our view, no requirement in the Audit Directive for non-PIE work to rest with a **single** competent authority, only the responsibility for public oversight. The legislation, therefore, allows for the current RSBs, to be designated 'competent authorities' for non-PIE audits, subject to FRC oversight.

[1] In answering this question, it may help in particular to consider the tasks of audit inspection, investigations and discipline, auditor approval and continuing professional development and the setting of technical and ethical standards for statutory audits and auditors.

The discussion paper appears to dismiss the possibility of designating other 'competent authorities' on the grounds of the stringent governance requirements. BIS states "*We understand the European Commission interprets the Directive to mean that the single competent authority and any other authority have to be governed wholly by non-practitioners, who are knowledgeable in areas relevant to statutory audit."*

However, we interpret the governance requirements differently.

Firstly, we refer to the governance requirements set out in Article 21 of the Audit Regulation. The Audit Regulation legislates for PIE audits only. We therefore consider that the reference to the governance arrangements relates only to 'competent authorities' who hold responsibility for PIE audits. This would, therefore, not appear to preclude the RSBs from becoming 'competent authorities' for non-PIE audits, despite not being designated as 'competent authorities' for PIE audits.

If the BIS interpretation is based on Article 21 making reference to 'competent authorities' rather than 'the competent authority', we consider that this is because the preceding Article 20 refers to those bodies who can be responsible for PIEs. None of the RSBs would fall within this Article. This is further confirmed in the definition in the Audit Regulation of 'competent authority' which refers to Article 20. We consider, therefore, that this governance requirement cannot be intended to apply to the RSBs, given they will have little to no responsibility for PIE audits (any residual responsibility for audit approval, which we discuss later, could be dealt with by delegation not designation, if FRC decided not to take over responsibility).

In the Directive, the reference to governance arrangements requiring non-practitioners is set out in Article 32(3). Article 32 relates to public oversight which, according to the same Article 32(1), can only be the responsibility of one competent authority i.e. the FRC. An argument has been made by BIS that because Article 32(4a) states that '*Member States shall designate one or more competent authorities to carry out the tasks provided for in this Directive'* that this sweeps in any other competent authorities to comply with the governance requirements. We are not convinced and believe that legal opinion should be sought on the likely construction of the Article. The governance arrangements in Article 32(3) refer to 'the competent authority' not 'competent authorities' and it is clear that the arrangements relate to public oversight. We therefore consider that this indicates that the governance arrangements are clearly intended to relate to the body responsible for public oversight, again the FRC. It is not clear that the governance arrangements are intended to apply equally to any other competent authority, particularly when that competent authority could be subject to a layer of oversight. In our proposed model, the RSB (see diagram) would still, arguably, be subject to a form of public oversight by the FRC. We fully agree that the FRC is caught by the requirements of Article 32 but we would prefer clarity over the extent to which this requirement would apply to an RSB in these circumstances. We remain unsatisfied that a clear argument has been made out.

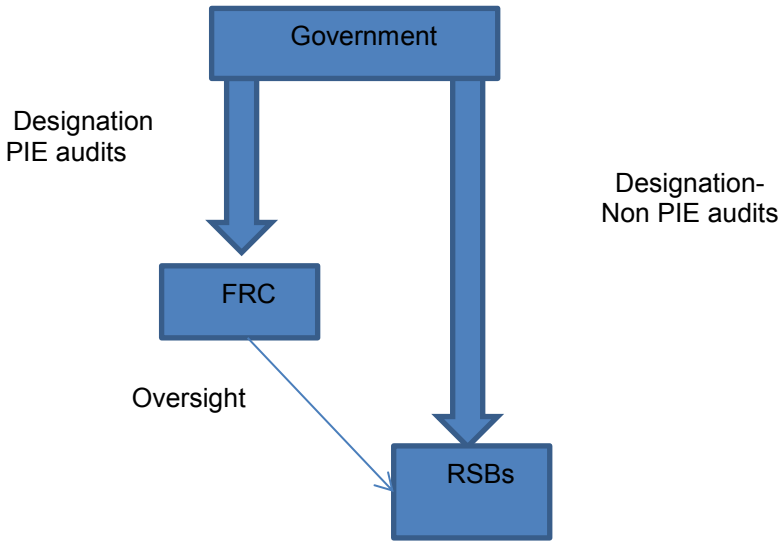
Given that our interpretation of the Regulation and Directive may be at odds with BIS' interpretation, we intend to obtain legal counsel opinion on this matter and would be willing to share that legal opinion with BIS in due course.

We note that the FRC is willing to make a change to its governance arrangements to enable it to be the 'competent authority'. If BIS considers that governance arrangements require to be put in place to allow the RSBs to become 'competent authorities' for non-PIE audits, which is not our interpretation, we would welcome further discussion with BIS and the FRC on governance requirements. We do not consider that such arrangements would be necessary in the public interest for the reasons stated above. Clarity, for example, would be welcome in relation to where the governance requirements are required i.e. is it at the operational/committee level where the decision making on individual firm's audit registrations sit, at Regulation Board or Council level? Neither Board nor Council would have any involvement in audit regulation decisions and to require such governance requirements at this level would seem excessive.

We acknowledge the governance challenges which we would face if the governance arrangements are expected to apply in full to RSBs. It is not an impossible requirement for the RSBs to meet, but it may require some changes to be made to our existing governance arrangements. ICAS would remain open to considering this issue. We all benefit from significant public interest member representation, but there are certain regulatory functions which we believe require the benefit of practitioners with the necessary skills, knowledge and experience.

On the basis of our analysis above, we have concluded that RSBs are not precluded, in European law, from being designated by Government as 'competent authorities'.

Therefore, we would propose an alternative model which we consider meets the Government's objectives. This is, as set out in the diagram below:



Our proposed alternative model would be:

- The Government designates the FRC as the 'competent authority' responsible for PIE audits (and possibly other 'major audits') and professional oversight. The FRC would require to comply with non-practitioner governance requirements. The responsibility for PIE audits would include regulation-setting, audit approval, inspection, investigations and discipline. The oversight function could also include responsibility for CPD for PIE engagement leads, if the FRC considers that additional competence requirements are needed. (If the FRC requires to delegate any of the PIE work this can be delegated to the RSBs).
- The Government designates the RSBs, in law, as 'competent authorities' for non-PIE audits. The RSBs retain full responsibility for audit approval, inspection, investigations, discipline and CPD for non-PIE auditors. The bodies are subject to oversight by the FRC, who approves the RSBs' audit regulations.

We consider that this alternative model meets BIS' three key considerations set out in the discussion paper:

- **Improving the effectiveness and reinforcing confidence**: it is clear that the FRC focus is on supervision and on PIE audits, allowing the FRC to demonstrate public interest.
- **Simplicity**: we consider that the public would understand this scheme better than a more complicated framework where there is delegation and 'take back'.
- **Reducing regulatory burden**: the simplicity ensures that costs are kept low, and the RSBs, who have years of experience, can continue to operate audit regulation of non-PIE audit work on a cost effective basis. The more expensive FRC resource would not be diverted from its main public interest role.

We would remain strongly opposed to any regime in which the RSBs lost their statutory footing and became mere "agents" of the FRC. There are important aspects of the RSB regime which should be retained where possible. This includes audit approval, CPD, inspection and discipline action in relation to all non-PIE audits as defined in the Directive. We would encourage BIS to fully explore all of the options provided for under the terms of the Directive and Regulation. There is great value in maintaining a respected and robust audit regulatory regime which is not overly "centralised" in a single entity.

Broadly speaking we agree that the FRC should continue to undertake the inspection work for PIE audits, the investigation and discipline of audit work related to PIEs, and public oversight. We note that the discussion paper proposes that FRC delegates audit approval in relation to PIE auditors to the RSBs. Arguably, the point of entry into the PIE market is one of the key regulatory risks. This aspect may require further consideration.

The FRC should not be appointed the single competent authority for the UK just because it is the most convenient choice (because it already undertakes some -but not all- of the functions). Government is being presented with the opportunity to deliver a new vision for audit regulation in the UK. This opportunity will not present itself again for at least another decade. The FRC should only be appointed the single competent authority if it is the **right** body to undertake the relevant roles and responsibilities in the public interest.

If the single competent authority model proceeds, ICAS would not be opposed to the principle that the FRC should be nominated. ICAS is an RSB for statutory audit but we have a small number of firms engaged in PIE audit work.

We acknowledge that the FRC already discharges many (but not all) of the responsibilities which will require to vest with the 'competent authority'. We have a good relationship with the FRC, but in our view a fundamental restructuring would be required, including a review of internal governance and accountability to the Government, to be properly positioned to discharge these functions in an effective and efficient manner.

We would envisage some further obstacles to the appointment of the FRC as the single competent authority; there is a legacy of overlapping statutory powers vested in the FRC, FCA and PRA. The interplay of these powers have long concerned the profession, though we have been assured that the FRC, FCA and PRA maintain sufficiently strong channels of communication to avoid any potential problems. If all statutory audit powers must vest with the competent authority then we believe the relationship between the FRC, the FCA and the PRA will require careful consideration in order to ensure that responsibilities and powers between the different authorities in relation to the audit of financial institutions and quoted companies is clearly defined, not subject to political pressure, and does not result in gaps/overlaps.

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?

We have covered most of the relevant issues in our response to Q9 above. We disagree with a single competent authority model and have set out an alternative model in that response which we consider would be more appropriate and would meet Government objectives.

Whichever model Government ultimately chooses, the statutory framework will require changes. The statutory framework for the setting of audit standards already vests with the FRC. The responsibility for Audit Regulations, which are currently established by each of the RSBs pursuant to the Companies Act 2006, would likely change if the FRC were to be the single competent authority.

We envisage that the competent authority responsible for oversight, the FRC, will insist upon greater consistency among any appointed "competent authorities" or "bodies designated". If the FRC were to become the single competent authority it would be preferable for the FRC to delegate regulation-setting in relation to non-PIE audits to the RSBs, subject to FRC approval. We would contend that this is a better use of the FRC's resources, allowing the FRC to concentrate on regulation-setting for PIE audits in the public interest, whilst allowing the RSB's to put their significant years of experience in regulating non-PIE audits to continued good use. This would also prevent any 'think big first' approach to regulation-setting which would not best represent the audit work of non-PIE firms, the majority of which are sole practitioners and small firms.

We also envisage that in legal terms, should the single competent authority model proceed, that the RSBs status could potentially diminish, but we would encourage BIS to ensure that, in practical terms at least, the RSBs should still be able to perform a number of audit regulatory functions, albeit not for PIEs.

Consideration also needs to be given to ensuring the complete separation of those who are tasked with the oversight of conduct and those who are tasked with adjudicating on the application of sanctions.

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?

The current investigation and disciplinary arrangements for statutory audit are enshrined in the FRC Accountancy Scheme ("the Scheme"). The Participant Bodies have long held the view that the Scheme was established to ensure compliance with Schedule 10 of the Companies Act 2006. However, the FRC has viewed the scope of the scheme, and its delegated powers, differently. We will continue to engage with the FRC on the question of scope but for present purposes we have restricted our comments to audit.

We believe that there is a need for a fresh approach, so as to deliver the correct framework for investigation and disciplinary arrangements dedicated to statutory audit (both PIE and non-PIE) and to ensure that there are no unintended consequences; there will be a delicate interaction between delegated and non-delegated investigation and disciplinary functions.

The extent to which these proposals involve the FRC will depend largely on the extent to which the FRC is ultimately appointed as the single competent authority.

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?

☐ Yes ■ No ☐ Not sure ☐ Not applicable

In our response to Q9 we have set out a proposed alternative model to the single competent authority model which proposes the FRC as the 'competent authority' responsible for oversight and PIE audits and the current RSBs as 'competent authorities' for non-PIE audits, for the reasons articulated in our response to Q9.

However, if the single competent authority model were to proceed, we would encourage a regime which does not diminish the role of the RSBs, who should retain responsibility for all aspects of audit regulation relating to non-PIE audits (including setting regulations, audit approval, inspection, complaints and discipline). This would enable the FRC to concentrate on public interest entities which is their area of expertise. Provision is also made in the Directive and Regulation for the single competent authority to reclaim tasks which are delegated on a case by case basis which would allow anything to be brought into the scope of the FRC should it be considered to be public interest (please refer to our response to Q13).

We recognise that some aspects of PIE work could be delegated to the RSBs. Arguably, points of entry to the market are as important as quality assurance and discipline but we acknowledge that the Directive and Regulation don't prohibit delegation of licensing for PIE audit by the competent authority. We recognise that the views of the RSBs may vary on this matter. However the scheme of delegation for PIE and non-PIE is resolved, we believe that there could be a clear segregation of responsibilities for PIEs and non-PIEs. This would be a transparent system for the general public to follow and understand. This could also allow for fairer and more proportionate oversight where each authority/body is responsible for the area in which it specialises.

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?

If the single competent authority model proceeds, whereby the competent authority delegates tasks to the RSBs in respect of non-PIEs (which we would favour), we consider that there should be clarity and transparency over which elements of audit regulation are being delegated. We are concerned that if the competent authority is able to reclaim tasks delegated on a case by case basis, as is currently proposed, that the system will become cumbersome, and prone to politics and influence, not least in the area of investigations. We accept that this provision is enshrined in the Directive (amended Article 32 para 49b).

In the view of ICAS, the only circumstances in which the competent authority should intervene are ones of genuine public interest. It is important, for the reasons noted above, that a single competent authority is not seen to be self-serving and that there are measures and protections in place to ensure it is acting fully in the interests of the public. It is also important to ensure that the scheme of delegation is free from political intervention at-will.

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

As noted in our response to Q9, ICAS firmly believe that that regulation-setting, audit approval, inspection, investigations and discipline of non-PIE audits should be retained by the professional bodies. This would ensure appropriate use of resources and expertise providing greater confidence in the auditing profession and would clearly segregate the work of the FRC from the other 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[2]?

☒ Yes ☐ No ☐ Not sure ☐ Not applicable

If so, which body or bodies do you think should have statutory powers for the removal of statutory auditors from the register?

As noted in our response to Q9, the FRC should have responsibility for PIE audits and therefore associated with this should be the statutory power to register and remove auditors in relation to these audits

We feel that the Audit Regulations issued by the Chartered Bodies in the UK adequately deal with the registration and removal of statutory auditors for non-PIE auditors. These Regulations have been in force since 2008 and have been used successfully to remove statutory auditors from the public audit register where deemed appropriate as a result of inspection or investigation & disciplinary functions. We appreciate that they will need to be revised, and such a review will be timely, but the bodies have shown that we are capable of operating within such regulations and maintaining the register.

Q16. Do you consider that, for consistency with a framework of ultimate responsibility, single competent authority approval should be required for the rules of the supervisory bodies?

☐ Yes ☒ No ☐ Not sure ☐ Not applicable

We would not support any proposals which enabled the competent authority responsible for oversight to intervene in our governance arrangements, beyond where to do so is deemed vital and necessary for the proper implementation of the Directive and Regulation.

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?

Until the proposals are finalised, it is difficult to estimate the cost involved in implementing the changes. Our preferred approach is to clearly separate the PIE arena from the non-PIE arena and remove all duplication of effort. Under this approach, all aspects of a PIE audit would be dealt with by the FRC as the single competent authority, ensuring that there was one point of contact for firms, clients and the general public. All non-PIE audits would then fall under the remit of the RSBs, and would allow them to decide on a risk based monitoring approach.

[2] The Statutory Auditors (Registration) Instrument 2008 currently applies for this purpose, having been made by the FRC using powers in section 1239 of the Companies Act, which are delegated to it.

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?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

We are supportive of this approach as this seems the natural home for content of this nature.

Consideration should also be given to including similar content, or at the very least to raising awareness of this requirement in the FRC's 'Guidance on audit committees' publication.

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 believe that the UK should adopt the cap as stated in article 4 of the EU Audit Regulation. One issue which might arise relates to the timing of the introduction of the cap but we are supportive of the BIS view that the first year of application would be the first accounting year beginning on or after 17 June 2019.

Additionally, in order to minimise the potential impact on business, including any unforeseen consequences, we believe that the FRC should be given the power 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.

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?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

We believe that the FRC should have the option to do so in both cases. We would, however, advise that in respect of the cap we see no merit in introducing a more restrictive limit than the 70% stated in article 4 of the EU Regulation.

Q21. Do you agree that the FRC should have the ability to exempt an audit firm from the 70% cap for up to two financial years on an exceptional basis and on application by the firm?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

As per our response to Q19 above, in order to minimise the potential impact on business, including any unforeseen consequences, we believe that the FRC should be given this ability. Consideration would also need to be given to what role the company, and in particular the audit committee, would have in this regard. It must be emphasised that the audit committee should have a key role in this respect.

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?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

We agree that this would probably be the most sensible approach for the UK to adopt. The FRC's ethical standards for auditors appear to be the natural home for requirements of this nature. Consideration should also be given to including similar content, or at the very least, to raising awareness of the requirements in the FRC's 'Guidance on audit committees' publication.

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?

It is essential that the requirements are clear to ensure that corporates, and in particular audit committees, are aware of which non-audit services are specifically prohibited. There will undoubtedly be other issues such as corporates having to manage the process of an orderly and effective disengagement of certain non-audit services which are currently being provided by the auditor.

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.

(a) Yes.
(b) Yes.

We believe this would be the simplest way of dealing with these revised requirements

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?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

Yes, we agree that the existing disclosure framework should be adapted to ensure public disclosure of the information concerned.

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?

We do not have the information available to allow us to respond to this question.

(b) the additional costs associated with reallocating some of the non-audit services that would otherwise have been provided by the same statutory auditor?

We do not have the information available to allow us to respond to this question.

(c) the extent to which these additional costs vary by the size of PIEs?

We do not have the information available to allow us to respond to this question.

(d) the person hours likely to be involved in a non-audit team at an audit firm understanding and preparing for the changes given that they will not be able to provide certain non-audit services to the firm's audit clients?

We do not have the information available to allow us to respond to this question.

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?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

We believe that all of the existing mechanisms listed, should continue to operate.

Are there any other systems that should also be provided for on the grounds that a competitive tender process is not appropriate?

We would not propose the introduction of any other system.

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?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

In such circumstances the directors' recommendation would appear to be the most pragmatic solution.

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 ■ No ☐ Not sure ☐ Not applicable

Whilst we accept that joint audit is currently very rare in the UK, we are not convinced that the UK should seek not to implement the specific incentive provision as drafted in the EU legislation i.e. that if a joint auditor is appointed after 10 years without a tender, that the total duration of the auditor appointment would be for a maximum of 24 years.

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 ☐ No ☐ Not sure ☐ Not applicable

We are very supportive of this proposal on the grounds that a company which tenders early should not be penalised for doing so.

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

a) when the current auditor took up the audit engagement at that company?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

b) when the audit engagement was last retendered?

■ Yes ☐ No ☐ Not sure ☐ Not applicable

c) the start of the next accounting year in relation to which the company expects that the auditor appointment will be based on a tender?

☐ Yes ■ No ☐ Not sure ☐ Not applicable

d) the directors' reasons for considering that the proposed year is in the best interests of the company's members?

☒ Yes ☐ No ☐ Not sure ☐ Not applicable

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

☐ Yes ☒ No ☐ Not sure ☐ Not applicable

We believe that the above proposed disclosures will provide useful information to shareholders. In relation to (c) above, however, we would question whether reference has to be made to the specific accounting year or whether a more general indication of when the next tender is expected to take place could be disclosed e.g. in 2019 or 2020. Likewise, in (d), whilst we are supportive of the substance of the stated disclosure, we believe that this again should relate to a more general indication of when the next tender is expected, rather than having to refer to a specific year.

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?

☐ (a) ☒ (b) ☐ (c) ☐ No preference ☐ Not applicable

It is imperative that companies are not penalised for tendering earlier than at the ten years stage. We therefore strongly favour option (b). This is because we are not convinced of the value of the notice from the audit committee. We do not believe that tendering, for example in year seven, should imply that the audit must be tendered again in year fourteen. The spirit of the rules is that the auditor can be reappointed for a period of ten years, therefore, we see any further communication from the audit committee as unnecessary.

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 are not aware of any issues.

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 do not have the information available to allow us to respond to this question. However, the CMA should have sufficient data available from its recent inquiry into the audit market to help inform BIS on this matter.

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?

The only potential issue relates to the auditor's associated liability with such a statement. A requirement in law for such a statement may be seen as more rigorous than one which appears in a standard. This may, however, only be an issue of perception.

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 ☐ No ☐ Not sure ☐ Not applicable

This would appear to be the most appropriate place to include the content of these provisions.

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?

☐ Yes ☐ No ☐ Not sure ☒ Not applicable

We are not aware of any issues.

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 ☐ No ☐ Not sure ☐ Not applicable

This would appear to be the most appropriate place to include the content of these provisions.

Q39. What issues, if any, do you consider arise from the application of the provisions of Article 11 of the Regulation on the additional report to the audit committee? If there are any how should they be addressed?

We are not aware of any issues.

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?

We do not have the information available to allow us to respond to this question.

(b) the additional annual cost of the audit committee considering the additional report?

We do not have the information available to allow us to respond to this question.

(c) how these costs vary by size of PIE?

We do not have the information available to allow us to respond to this question.

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)?

☐ (a) ■ (b) ☐ (c) ☐ No preference ☐ Not applicable

We support option (b). We believe that the benefits of retaining a lower audit exemption threshold outweigh the related costs of not increasing this threshold in line with that used for small company financial reporting purposes. We believe that there is added value to stakeholders in having the financial statements of an entity audited and the suggested increase in the audit threshold to the maximum level permitted may have a negative impact, particularly in light of the forthcoming changes to small company accounts, on the quality of financial information produced. Such a move would in-effect take us back to the situation pre-September 2012, when two separate definitions for small companies: one for financial reporting; and one for audit exemption, were in use for a number of years. This did not appear to cause a significant burden on business. The rigour of the audit process provides assurance to stakeholders in relation to the financial performance and standing of the entity concerned. This helps to facilitate more informed decision by such stakeholders. This can help to create confidence in transacting with such entities.

We also have concerns that increasing the thresholds for audit purposes will lead to fewer smaller audit firms remaining in that market. This will reduce the pool of auditors available to charitable entities, the audit exemption thresholds for which are set at a much lower level. This is likely to lead to charities having to pay more for an audit.

The current changes to the financial reporting framework are significant and will take time to bed down. Our experience in the past, from audit inspections, has been that even minor changes to financial reporting frameworks can lead to confusion amongst financial statement preparers. Increasing the audit threshold at a time of such significant financial reporting changes, where there is a tiered approach and choices to be made in relation to which standard to be adopted, means that there will be less 'policing' of the correct adoption of accounting standards. Such entities will fall out of statutory audit monitoring and whilst the RSBs also operate non-statutory monitoring of accounts preparation, not all preparers will use regulated accountancy firms. 'Unqualified' accountancy firms are not regulated and financial statement preparers may not elect to use accountancy firms at all.

Chapter 5

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?

ICAS has concerns over the proposal to exclude from the six year inspection cycle those firms that audit only small undertakings. While we acknowledge that the frequency of inspections needs to be determined on a risk basis, this appears to remove some firms from the inspection regime.

ICAS has many audit firms who conduct only a small number of audits, many of which are voluntary audits in the UK, or are charity audits. We would have concerns over how this requirement can be implemented and monitored and whether there would be any additional volume thresholds or other size criteria applied. More regular inspection helps to ensure that standards are maintained and helps to safeguard the market's confidence in audit.

Further, we are concerned that this could inadvertently distort the RSB market. Each RSB would risk assess its audit firms and identify how long a visit cycle should be, and perhaps introduce more of a 'light touch' review for lower risk audit firms. This could then provide audit firms with a choice of regulator, with firms opting to register with the one they anticipate would operate a less onerous monitoring regime. ICAS considers this to be an unintended consequence of the legislation as drafted and is not in the interests of the public. ICAS believe that the public expects auditors to be held to an appropriate standard and be monitored to ascertain whether this is being achieved. To remove some firms from audit inspection dilutes the value of audit which impacts on the quality of financial reporting in the UK.

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 do not have the information available to allow us to respond to this question.

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 ☐ No ☐ Not sure ☐ Not applicable

Yes, we are supportive of this proposed approach as this seems logically the most appropriate means of introducing such required changes.

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 do not have the information available to allow us to provide a detailed response to this question. However, we would not envisage that the number of instances would be significant.

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?

It is our understanding that the EC is not minded to require use of the ISAs in the EU in the near future. That said, the UK should monitor developments and engage with the EC on this matter. In relation to future adoption of the ISAs we would not like to see the carve out of any specific ISAs – akin to what happened in relation to the endorsement process for international financial reporting standards. ISAs really exist as a suite of standards and need to be implemented on that basis. Where the EC may have concerns about a particular ISA, then it should lobby the International Auditing and Assurance Standards Board (IAASB), as appropriate, for revisions to be made to the particular standard concerned.

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 ☐ Not sure ☐ Not applicable

In terms of audit quality we believe that the answer to (a) must be yes

(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 ☐ Not sure ☐ Not applicable

Likewise, we believe that on the premise of audit quality, the answer to (b) must be yes.

Q48. What issues, if any, do you consider arise from the implementation of the new requirements on audit committees via amendments to the existing DTR 7.1 in the FCA Handbook (for companies with securities admitted to trading on a regulated market)?

We are not aware of any issues that could arise in relation to the proposed mechanism for implementation. We do however have concerns regarding the possibility of an audit committee having members who are not a member of the board. This conflicts with the fundamental principle of the "unitary board". The audit committee is a "committee" of the board and by definition is made up of elected full members of the board who have fuller and wider duties and responsibilities. This proposal would make the audit committee something else and the potential implications have not clearly been thought through. Accountabilities for the annual report and financial statements would therefore also be blurred and potentially require an amending change to the Companies Act 2006.

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?

Special transition arrangements may be required to help such entities to identify and appoint suitable persons for membership of such committees.

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?

We do not have the information available to allow us to respond to this question.

(b) the cost of recruiting members to be part of an audit committee?

We do not have the information available to allow us to respond to this question.

(c) the annual cost of attendance of a member?

We do not have the information available to allow us to respond to this question.

(d) the auditor's fees for attending audit committee meetings?

We do not have the information available to allow us to respond to this question.

(e) how these costs vary by size of PIE?

We do not have the information available to allow us to respond to this question.

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?

☐ (a) ☐ (b) ■ (c) ☐ No preference ☐ Not applicable

On the premise that a single competent authority approach was adopted we would favour option (c) to help ensure a joined up regulatory approach.

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?

We do not have the information available to allow us to respond to this question.

(b) the frequency with which the PRA is provided with this information for banks building societies and insurers under existing requirements?

We do not have the information available to allow us to respond to this question.

(c) the frequency with which the FCA is provided with this information for other PIEs in practice already?

We do not have the information available to allow us to respond to this question.

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 ■ No ☐ Not sure ☐ Not applicable

We agree with the process of registering 'host' audit firms in the UK and are supportive of the FRC undertaking this on behalf of the UK.

However, we are concerned that the introduction of adaptation periods removes some of the competence requirements for incoming auditors. The aptitude test for example, requires auditors from other member states to demonstrate a sufficient level of knowledge of UK company law and taxation before they conduct audit work in the UK.

By replacing, or supplementing this, with an adaptation period, there is a concern that the auditor can undertake work without having demonstrated this competence. While we appreciate there will be oversight and monitoring by the FRC, there is a potential risk of poorly completed audit work which may go unidentified over the three-year adaptation period. ICAS would therefore prefer that the aptitude test be retained. There are significant differences between qualifications (both knowledge and experience requirements) across the EU and this shouldn't be ignored. We would refer you to the Common Content project which ICAS and other European Accounting bodies are a member of, which sets a common standard for knowledge and experience.

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;

This would be a significant change in approach, however, it is not clear what the magnitude of enquiries for recognition is. From an ICAS perspective, we receive very few such applications. Currently the FRC would not have the resources or structures to enable it to create, set or assess knowledge and competency requirements in relation to the aptitude test. This could have significant cost implications for the FRC as it may need to create an expensive assessment structure for a relatively small number of individuals. Currently this is absorbed by the professional bodies as the existing assessment processes are used and this is very cost effective.

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

We also have very similar concerns relating to the documentation of, recording of and monitoring of the adaptation period.

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 would need to see what emerged from such discussions before passing comment.

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Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000.

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