Chartered Accountants House
47–49 Pearse Street
Dublin 2

Tel +353 1 637 7200
Fax +353 1 668 0842
Email ca@charteredaccountants.ie

www.charteredaccountants.ie

Paul Smith
Corporate Frameworks, Accountability and Governance
Department of Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

19th March 2015

Auditor Regulation: Discussion Document on the Implications of the EU and Wider Reform

Dear Paul

Chartered Accountants Ireland and the Chartered Accountants Regulatory Board ('the Institute') are pleased to respond to the above consultation. Our response is attached as an Appendix to this letter.

As a Recognised Supervisory Body in the United Kingdom ('UK'), the Institute has contributed to the debate on reform of statutory audit both in Ireland and the UK and also to the EU process from publication of the EU Green Paper on statutory audit in 2010. The Institute has also been active participants in Irish and UK government processes which have considered various issues regarding transposition of the 2013 EU Audit Directive ('the Directive') and the EU Audit Regulation ('the Regulation'). We remain supportive of initiatives aimed at continuing to drive audit quality and which underpin confidence in statutory audit.

Most recently, we have responded to a similar consultation by Ireland's Department of Jobs, Enterprise, and Innovation ('DJEI') on the same subject. We are supportive of the EU intention of achieving a harmonised market for statutory audit services and harmonised regulatory regimes.

We look forward to continuing to engage with DBIS in the transposition process.

Yours sincerely

Heather Briers
Director
Chartered Accountants Regulatory Board

Appendix

Q1. Do you agree that the FRC should, subject to continuing to have the power do so after the Audit Directive and Regulation have been implemented, exercise the provisions in the Audit Directive and Audit Regulation to impose additional requirements in auditing standards adopted by the Commission (where necessary to address national law and, where agreed as appropriate by stakeholders, to add to the credibility and quality of financial statements)?

We are supportive of the FRC retaining the ability to impose additional requirements where there is a consensus among stakeholders that such are necessary and result from specific legal or regulatory obligations. We do note, however, the comments of the Department for Business, Innovation, and Skills in its own consultation on the transposition of the Regulation and Directive that it does 'not want to make unwarranted changes'. So while we continue to support the principle espoused in the above question, such powers should only be exercised when there is clear evidence for so doing and where other routes of achieving the same purpose (such as through the International Auditing and Assurance Standards Board ('IAASB')) have been exhausted.

Q2. Do you believe that the FRC's current audit and thical standards can be applied in a manner that is proportionate to the scale and complexity of the activities of small undertakings? If not, please explain why and what action you believe the FRC could take to address this and your views as to the impact of such actions on the actuality and perception of audit quality.

We have always believed that current audit and ethical standards are capable of proportionate application. Indeed, the Institute publishes an audit product 'Procedures for Quality Audit' which is aimed specifically at audits of smaller audits and which, we believe, complies with the requirements of ISAs (UK & Ireland) and is widely used by member firms. Similarly the ES PASE appears to continue to work well.

We also consider that various publications previously issued by the Auditing Practices Board (Practice Note 26, for example) continue to be a valuable reference source for auditors of smaller entities.

Anecdotally, there do appear to be differences in interpretation of proportionate application, in particular, between practitioners and quality assurance inspectors. There may be merit in exploring this issue further by engaging in further debate on what proportionality means to these respective parties and how this can be demonstrated.

Q3. When im e nt'ng the requirements of Articles 22b, 24a and 24b, should the FRC simplify hem, w e allowed, or should the same requirements apply to all audits and audit firms re l s of the size of the audited entity? If you believe the requirements in Articles 22b, 24a and 24b should be simplified, please explain what simplifications would be ap ' e, including any that are currently addressed in the Ethical Sta ıdard 'Pr ' si ns Available for Small Entities' and your views as to the impact of such actions on the actuality and perception of audit quality.

As with our answer to Question 2 we do believe that such requirements should apply to all audits and are capable of proportionate application. Indeed much of what is required by Articles 22b, 24a, and 24b is already included in professional standards. The critical issue, as with our answer to Question 2, is arriving at a common understanding on what is appropriate for smaller audits. Some additional research on this issue may be helpful.

Q4. With respect to the more stringent requirements currently in the FRC's audit and ethical standards (those that are currently applied to 'Listed entities' as defined by the FRC) that go beyond the Audit Directive and Regulation:
(a) should they apply to PIEs as defined in the Audit Directive?
(b) should they continue to apply to some or all other Listed entities as currently defined by the FRC? If so, which of those requirements should apply to which types of other Listed entities?

Consistent with our response to the DJEI consultation in Ireland, we are not supportive of 'gold plating' any of the measures in the Regulation and Directive. These new requirements will represent a significant challenge to PIEs, and their auditors, involving new complexities and costs. Gold plating such measures by applying additional requirements in extant FRC auditing and ethical standards will undoubtedly add additional burdens to entities newly classified as PIEs. We are not convinced that the costs of this proposal will outweigh any identified benefits.

Implementation of the EU reforms provides the FRC with an opportunity to consider whether it remains appropriate to impose on UK listed entities requirements beyond those contained in the Regulation and Directive. To the extent that such additional obligations do not contribute positively to audit quality and represent significant additional burdens, then requirements should be harmonised with those mandated by the EU.

Q5. Should some or all of the more stringent new requirements to be introduced to reflect the provisions of the Audit Regulation apply to some or all other Listed entities as currently defined by the FRC? If so, which of those requirements should apply to which types of other Listed entities?

Consistent with our response to Question 4 above we are supportive of the EU aims of achieving a harmonised market and regulatory regime for PIEs and their statutory auditors. The only way of achieving this is for all EU Member States to avoid further gold plating of the requirements in the Regulation and Directive. We are therefore not supportive of the suggestion contained in Question 5.

Q6. Should some or all of the more stringent requirements in the FRC's audit and ethical standards and/or the Audit Regulation apply to other types of entity i.e. other than Listed entities as defined by the FRC, credit institutions and insurance undertakings)? If yes, which requirements should apply to which other types of entity?

No. See our response to Question 5.

Q7. What approaches do you believe would best reduce perceptions of threats to the auditor's independence arising from the provision of non-audit services to a PIE (or other entity that may be deemed of sufficient public interest)? Do you have views on the effectiveness of (a) a 'black list' of prohibited non-audit services with other services allowed subject to evaluation of threats and safeguards by the auditor and/or audit committee, and (b) a 'white list' of allowed services with all others prohibited?

The FRC suggestion of the introduction of a so called 'white list' represents a significant departure from the EU Regulation and is perhaps the most obvious example of 'gold plating' contained in the FRC consultation.

There is already ample evidence of companies reducing the use of their statutory auditors to provide non-audit services as audit committees, in particular, pay particular attention to the imperative of demonstrating auditor independence.

A 'white list' approach was not considered by DJEI during its recent consultation, nor are we aware of such being considered in any other jurisdiction. We do not support the concept of a 'white list'.

Q8. If a 'white lis ' approach is deemed appropriate to consider further:
(a) do you believe that the illustrative list of allowed services set out in paragraph 4.13 would be appropr'ate or are there services in that list that should be excluded, or other services that should be added?
(b) how might the risk that the auditor is inappropriately prevented from providing a service that is not on the white list be mitigated?

We are not supportive of a 'white list' approach. Indeed, we believe that the provision of permitted services (with appropriate safeguards) to audit clients does enhance audit quality through permitting a deeper understanding by audit firms of client businesses.

Q9. Are there non-audit services in addition to those prohibited by the Audit Regulation that you believe should be specifically prohibited whether or not a 'white list' approach is adopted)? If so, which additional services should be prohibited?

The Regulation contains a comprehensive set of measures aimed at achieving the EU's stated objectives for audits of PIEs. For individual Member States to add additional prohibitions to an already comprehensive and restrictive list will cause further regulatory divergence and fragmentation, resulting in more regulatory complexity across the Single Market. The burden of such divergence will be most heavy on those PIEs operating in various Member States with different restrictions on the provision of non-audit services ('NAS').

The most efficient way of achieving consistency and a level playing field is to respect the comprehensiveness of the list of prohibited NAS as established by the Regulation. Not least of the measures in the Regulation is the importance attached to the role of the audit committee in policing what an entity buys from its auditor by way of NAS. We are not supportive, therefore, of this list being added to.

Q10. Should the derogations that Member States may adopt under the Audit Regulation – to allow the provision of certain prohibited non-audit services if they have no direct or have immaterial effect on the audited financial statements, either separately or in the aggregate - be taken up?

Consistent with our responses above, we believe that it is appropriate for Irish companies to be afforded the maximum flexibilities available in Article 5.3 in accordance with the safeguards detailed in that Article.

While there may be some interpretational issues to be addressed in availing of this Option, the provision of such NAS will be subject to approval by the audit committee – an appropriate and proportionate safeguard.

Q11. If the derogations are taken up, is the condition that, where there is an effect on the financial statements, it must be 'immaterial' sufficient? If not, is there another condition that would be appropriate?

Yes. This has already been deemed appropriate within the EU Regulation. We are not aware of any compelling reason for an alternative approach nor what such an approach might be.

Q12. For an auditor to provide non-audit services that are not prohibited is it sufficient to require the audit committee to approve such non-audit services, after it has assessed threats to independence and the safeguards applied, or should other conditions be established? Would your answer be different depending on whether or not a white list approach was adopted?

The package of measures contained in the Regulation as a whole is a sufficient and appropriate response to strengthening auditor independence and transparency on the awarding of NAS to the statutory audit firm. Article 5.4 of the Regulation regarding the role of the audit committee is an important component of these safeguards

Should a compelling reason arise in the future suggesting that a more strict approach be adopted, then additional safeguards can always be considered.

Q13. When implementing the provisions of the Audit Regulation in the Ethical Standards, should the FRC require the group auditors of PIEs to ensure the principles of independence set out in the FRC's standards (including the provisions relating to the provision of non-audit services) are complied with by all members of the network whose work they decide to use in performing the audit of the group, with respect to all components of the group based wherever based? If not, what other standards should apply in which other circumstances?

We are not convinced of how extraterritorial application of FRC Ethical Standards can be achieved. Such a measure, would, in our view, be counterproductive to achieving a harmonised regime both within the EU and beyond. Even if achievable, it would introduce unwarranted complexity.

We do not therefore support the proposal in this question.

The IESBA Code remains the appropriate basis for achieving harmonised ethical requirements for auditors.

Q14. When implementing the provisions of the Audit Regulation in the Ethical Standards, should the FRC require the group auditors of PIEs to ensure the principles of independence set out in the FRC's standards (including the provisions relating to the provision of non-audit services) are complied with by all other auditors whose work they decide to use in performing the audit of the group? If not, what other standards should apply in those circumstances?

As at Question 13 above, we believe the IESBA Code offers the best prospect of achieving uniform and consistent independence requirements for auditors.

We are not supportive, therefore, of the proposal in Question 14.

Q15. Is the 70% cap on fees for non-audit services required by the Audit Regulation sufficient, or should a lower cap be implemented for some or all types of permitted non-audit service, including the illustrative 'white list' services set out in Section 4?

Regulation 537/2014 constitutes a comprehensive package of measures aimed at underpinning auditor independence, providing greater transparency on the role of audit, and strengthening the regulation of auditors of PIEs through State delivery of regulation and supervision.

Taken as whole, we believe the measures in the Regulation of themselves (caps on fees for non-audit services ('NAS'), restrictions on the nature of NAS that may be provided by auditors, mandatory audit firm rotation) provide a sufficient and appropriate framework to achieve the above objectives without the need to for additional 'gold plating' by Member States.

Those most impacted by these measures, PIEs themselves, will look to implementation of these measures in a manner which keeps associated costs to a minimum and provide the necessary competitive environment to conduct business efficiently.

It is our position that the cap of 70% should not be reduced further.

The combination of the cap, new restrictions on non-audit services, and the strengthened role of audit committees will provide sufficient safeguards in respect of auditor independence.

Q16. If the FRC is made the relevant competent authority, should it grant exemptions from the cap, on an exceptional basis, for a period not exceeding two years? If yes, what criteria should apply for an exemption to be granted?

It makes sense to permit exemptions from the '70% requirement' subject to the agreement of the competent authority. It is not unusual for the auditor to be required to carry out additional work of a non-audit and non-routine nature – which may result in fees exceeding the cap – eg unanticipated due diligence, special investigations, responding to requests from regulators, mergers, and IPOs. The fact that this temporary exemption is subject to competent authority approval provides the appropriate safeguard. Measures elsewhere in the Regulation provide the necessary transparency.

Q17. Is it appropriate that the cap should apply only to non-audit services provided by the auditor of the audited PIE as required by the Audit Regulation or should a modified cap be calculated, that also applies to non-audit service provided by network firms?

We are not supportive of such a proposal which serves to introduce additional complexity to an already complex Regulation. Consistent with our general opinions on transposition of the Regulation and Directive, the FRC/BIS should seek to align transposition with the EU requirements, avoiding any gold plating.

Q18. If your answer to question 17 is yes, for a group audit where the parent company is a PIE, should the audit and non-audit fees for the group as a whole be taken into consideration in calculating a modified alternative cap? If so, should there be an exception for any non-audit services including the illustrative 'white list' services set out in Section 4, be excluded when calculating the modified cap?

We have answered 'No' to Question 17.

Q19. Is the basis of calculating the cap by reference to three or more preceding consecutive years when audit and non-audit services have been provided by the auditor appropriate, given that it would not apply in certain circumstances (see paragraphs 5.3 and 5.15)?

Consistent with our answers to related questions on this issue, we do not believe there is a need for the FRC/BIS to go beyond the requirements in the Regulation.

Q20. Do you believe that the requirements in ES 4 should be maintained?

We have no evidence suggesting that the existing requirements in ES 4 which go beyond the EU requirements are causing any particular difficulties in practice. We have no particular objection to these thresholds remaining as is.

Q21. When the standards are revised to implement the Audit Directive and Regulation, do you believe that these more restrictive requirements in FS 4 should apply with respect to all PIEs and should they apply to some or all other entities that may be deemed to be of sufficient public interest as discussed in Section 3? If yes, to which other entities should they apply?

Applying these criteria to all PIEs does go beyond the EU requirements. This may cause particular difficulties for smaller audit firms. Evidence based research would help assess the impact on such firms before deciding whether to apply the more restrictive ES 4 thresholds.

Q22. Do you believe that an expectation that fees will exceed the specified percentages for at least three consecutive years should be considered to constitute an expectation of "regularly" exceeding those limits? If not, please explain what you think would constitute "regular".

Yes. Our understanding is that 'three consecutive years' is established practice and, in our view, remains appropriate.

Q23. Should the FRC stipulate a minimum retention period for audit documentation, including that specified by the Audit Regulation, by auditors (e.g. by introducing it in ISQC (U K and Ireland) 1)? If yes, what should that period be?

We see no need to depart from the current practice where such requirements are specified in the Regulations of the Recognised Professional Bodies – currently 6 years.

Q24. Do you believe that the FRC's audit and/or thical standards should establish a clear responsibility for auditors to ensure that they do not act as auditor when they are effectively time barred by law from doing so under the statutory requirements imposed on audited PIEs for rotation of audit firms?

It is unclear why this issue has been singled out from any other issues regarding compliance with the law by statutory auditors. We believe auditors will be more than aware of the legal requirements with regard to the duration of audit appointments. Having a single point of reference (ie legislation) avoids the potential for confusion and inconsistent application or interpretation. PIEs themselves will also have a responsibility to ensure that the appointment of the statutory auditor is in accordance with legal requirements.

We are therefore not supportive of this proposal.

Q25. Do you believe that the requirements in ES 3 should be maintained?

The current ES 3 requirement is more restrictive than the EU requirement of 7 years and also than the IESBA requirement of the same period. Given that the definition of PIEs may include entities (unlisteds) previously not subjected to the ES 3, five year requirement, this more restrictive rule may impact disproportionately on smaller audit firms. While we have

no evidence in this regard, transposition of the EU Regulation affords the FRC an opportunity to revisit ES 3.

While the overriding priorities must remain audit quality and auditor independence, unless there is compelling evidence to the contrary, FRC should reconsider aligning partner rotation requirements with the EU Regulation and the IESBA Code.

Q26. When the standards are revised to implement the Audit Directive and Regulation, do you believe that these more restrictive requirements in ES 3 should apply with respect to all PIEs and should they apply to other entities that may be deemed to be of sufficient public interest as discussed in Section 3? If yes, to hich other entities hould they apply?

We do not support extending the measures of the EU Regulation and Directive beyond the minimum scope of these Instruments.

Q27. Are there any other possible significant impacts that the FRC should take into consideration?

See our covering letter.

Appendix

Auditor Regulation: Discussion Document on the Implications of the EU and Wider Reform

PART I: General observations

Introduction

This submission, in response to the above consultation, is made jointly by Chartered Accountants Ireland and the Chartered Accountants Regulatory Board (CARB). Chartered Accountants Ireland is a Recognised Supervisory Body under the Companies Act; CARB is responsible for regulating members of Chartered Accountants Ireland independently openly and in the public interest.

We welcome the opportunity to respond to this discussion paper (the Paper). As a Recognised Supervisory Body (RSB) under the Companies Act we were broadly supportive of the package of measures that was eventually finalised in Audit Regulation and Directive in 2014 (referred to hereafter as the EU legislation) and wish to see it implemented in accordance with the current UK Government principles of regulation as set out in the 'Better Regulation Framework Manual, BIS, July 2013 p.4'.

We have previously responded to a similar consultation in Ireland by the Department of Jobs, Enterprise and Innovation. Our comments are consistent between both jurisdictions.

In Part I of this submission we have set out some overarching observations which DBIS might usefully consider when formulating its transposition proposals. In Part II we have responded to the individual questions raised in the consultation.

Implementation of the EU Legislation is a challenge for the Department of Business, Innovation & Skills ('DBIS'). However we believe that it is important that transposition is achieved in a manner which addresses the problems it was developed to address. When the European Commission set out to tackle perceived failings in the audit market in the aftermath of the 2008 financial crisis it stated:

> 'In the wake of the financial crisis, we need to ask the question whether the role of auditors can be enhanced to mitigate any new financial risk in the future... This work on audit is part of our effort to learn the lessons from the crisis and reform the financial sector[1].'

Therefore, the Regulation and the Directive were drafted to address the audit of banks as well as the largest and most complex Public Interest Entities (PIEs) – those that could pose a systemic risk to financial stability and market confidence. We believe the Government should avoid gold-plating and build on the current regulatory structure which exists on the UK and which has worked well to date.

Maintaining competitiveness and providing maximum flexibility to PIEs

Unusually for a European Regulation, which normally would have direct application in Member States, Regulation 537/2014 contains a series of Options which will need to be considered by individual Member States. This means that, in spite of the EU desire to create a harmonised audit market throughout the Union, regimes will not be identical. PIEs will be subject to the Member State options adopted in their country of registration, so application issues may arise in cases where there are several PIEs in the same group but registered in different Member States. There will be similar implications when a PIE is part of a group with a non-EU parent. Undoubtedly, therefore, the Regulation in particular will impose additional costs and regulatory requirements on PIEs themselves and their auditors.

---

[1] Commission Press Release, Brussels, 13 October 2010, IP/10/1325

The optimal approach for achieving a harmonised application of the EU reforms throughout the EU is for Member States to implement those measures that are requirements of the Regulation and Directive without any additional 'gold plating' and to adopt those Member State Options which facilitate maximum flexibility for corporate entities.

The Government has stated in its principles of regulation 'When transposing EU legislation the aim should be to avoid going beyond the minimum requirements of the measure being transposed...(so as not to)... create unnecessary legislative burdens and place UK business at a competitive disadvantage[2].'

We support this approach and believe that in the interests of contributing to the maintenance of the UK's competitiveness and attractiveness as a business location, implementation of the new EU measures (in particular those relating to mandatory audit firm rotation, provision of non-audit services) should be in a manner that is no more onerous than how these Options have been implemented by other Member States. In adopting such an approach, DBIS will be aware of existing safeguards and that those requirements in the Regulation and Directive which are additional together provide an appropriate response to the imperatives of safeguarding auditor independence, maintaining audit quality, and underpinning the regulation of PIE auditors.

Competent Authorities and the role of the Recognised Supervisory Bodies

As the Directive and Regulation provide for multiple competent authorities, we do not see that the Directive or Regulation would restrict the Government from designating the FRC as the CA with ultimate oversight responsibility and for the carrying out the reserved functions set out in Article 24 of the Regulation and designating the RSB's as the CA for carrying out the other activities. This is in large measure the model which currently exists in Irish legislation.

We strongly support a regulatory model which would provide legal designation of the FRC and the CAI and other RSBs as competent authorities for a designated range of duties with direct delegation from BIS. We believe that this is necessary to ensure to provide legal clarity and ensure the independence of the FRC and the RSBs under any new regulatory model. We understand that the FRC is largely satisfied with the work of the RSBs. The FRC, whilst acknowledging there is always room for development and improvement has stated that "All the recognised bodies devote substantial resources to their regulatory responsibilities. Much of the regulatory practice we have seen is of a high standard[3]."

Chartered Accountants Ireland and CARB, CAI's operationally independent regulatory body, and the other UK RSB's are committed to delivering an effective regulatory system in the public interest under the supervision of the FRC. The FRC, in its 2012 report to the Secretary of State for Business, stated:

> "The (European) Commission wants to restrict very substantially the role that a professional body can play in audit regulation, placing on the independent oversight body responsibility for monitoring the work of all statutory auditors...we do not consider that the Commission has made a convincing case for such a major change and consider that the existing arrangements, at least in the UK context, are fit for purpose[4]."

Professional Standards versus legal requirements

Many of the additional and detailed measures imposed by the EU legislation, for example, regarding independence, internal firm procedures, content of audit files, and the content of audit reports etc. are already well established in the UK and Ireland. Indeed, DBIS will be aware that

---

[2] How to Implement European Directives Effectively. HM Government April 2013 p.6
[3] POB Report to the Secretary of State for Business and Skills, Year to 31 March 2012 p.6
[4] POB Report to the Secretary of State for Business Innovation and Skills, Year to 31 March 2012 p.39

both jurisdictions have a complex mix of rules involving company law, ethical standards for auditors, auditing standards and corporate governance codes which, in many respects replicate those measures contained in the EU legislation.

These standards/requirements, based on international equivalents, have been established independently of the auditing profession in Ireland and the UK by the Financial Reporting Council ('FRC'). The Irish Auditing and Accounting Supervisory Authority ('IAASA') enjoys 'observer status' on a number of the FRC's constituent bodies at which such requirements are developed.

We believe it is unnecessary, therefore, for the UK and Ireland to seek to embed in law much of the detailed requirements of the EU legislation. Detailed processes and procedures should continue to be established as part of the existing standard setting process.

Possible implications for the FRC

The FRC was set up primarily as an oversight body and standard setter, with its direct regulatory responsibilities directed at the audits of entities that could cause a systemic risk. This left the professional bodies (as RSBs) to carry out the bulk of the regulatory work.

We support the FRC becoming the competent authority with ultimate responsibility under the legislation, but given the dual regulatory role we believe there needs accountability and robust Government oversight as well as an independent review of its current governance structure.

Interaction between Ireland and the UK

Following on from our comments above, DBIS will be familiar with the common approach to financial reporting, auditing, and corporate governance that has existed between the UK and Ireland. This has been particularly beneficial to companies operating in both jurisdictions and has been particularly important for those accountancy bodies recognised in both jurisdictions.

We would encourage DBIS to liaise with Irish colleagues on implementation.

The scale and complexity of markets differ significantly between the UK and Ireland. And while ideally it would be preferable in the interests of UK and Irish business, particularly PIEs, and the auditing profession that these regimes remain as aligned as possible, we do have a concern that different approaches adopted by each jurisdictions may create tensions in the current regimes of standard setting and regulation. We have raised this issue also in our response to the FRC consultation.

We hope you find our comments useful. We remain committed to working to ensure a smooth transition to the revised regulatory regime and are available to discuss any of the issues we have raised in our response at the convenience of DBIS.

PART II: RESPONSES TO SPECIFIC QUESTIONS

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.
In general legislation can be an inflexible tool and therefore as set out in Part I we support the continuance of the current regulatory framework within which detailed processes and procedures are part of the standard setting [process, underpinned where necessary by enabling legislation.

However, one area that would benefit from legal certainty is the overall regulatory structure. There is a need for the requisite powers of the competent authorities to be established in law to ensure that there is legal clarity as to the respective roles of Government which has the ultimate responsibility for the regulation, the FRC as the competent authority for the oversight of the professional bodies and the delivery of the functions reserved to it by Regulation 24 and the professional bodies in their role as the competent authorities delivering the functions directly conferred on it by legislation.

DBIS should set out as a clear goal that the legislation will implement the Directive and Regulation. The default position is that there should be no gold-plating and where there is it must be justified by clear evidence and impact analysis, having regard to the government's wider obligations to enhance competitiveness.

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.

For simplicity and consistency we attach our submission to the DJEI (ROI) on Member State options.

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?

As indicated in Part I we believe it will be necessary to carefully consider the suitability of existing governance arrangements for the FRC. FRC was established primarily as an oversight body ensuing that the PSB's deliver their regulatory responsibilities appropriately. The FRCs direct responsibilities have heretofore largely focused on standards and those audits with a potentially systemic impact on the markets. However, a number of the proposals envisage the FRC moving away from this role towards taking direct responsibility for executing regulation. This in our opinion will impinge upon its public interest supervision role with it becoming judge and jury in many instances, this dual role will of necessity lead to a need for greater accountability to the UK Authorities.

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 support the need for all audits audit work needs to be of high quality. As stated previously we support the proportionate application of new requirements. We would be concerned that the impact of imposing the additional measures included in the Directive and Regulation on a wider group of companies than that defined as PIEs would be disproportionate and costly to the companies involved.

We note that for some smaller audit firms auditing entities now classified as PIES, there will be an additional cost burden, as yet unquantified.

Public interest entities

Q5. Do you agree that the Government should not expand the definition of a PIE beyond the EU minimum requirement – that is listed companies, banks, building societies and insurers? Please provide further information in support of your answer?

The EU legislation brings into place a more detailed framework for the regulation of PIE audits, not only in relation to the supervision of the audit but also improved governance and financial controls and the requirement for the auditor to challenge these.

We have previously set out our views that the Government should only include in legislation that which is necessary to implement the EU legislation. In particular, we believe in the interests of harmonisation and competitiveness that the UK Companies Acts should define PIEs in accordance with that set out in the EU legislation.

In this context therefore we would question the appropriateness of the PIE and major audit categories being continued in this legislation. Any entities that fall outside this definition should have the review of their audits delegated to other bodies, and the FRC role be confined to that of ensuring that those bodies carry out the role properly. That is the spirit and aim of the EU legislation.

In our view there is nothing to prohibit Government reserving the power to add other entities to the definition for the purposes of FRC having direct supervision powers, where the Government believes that there is a systemic risk to the public, for example significant financial service or significant charities or pension funds, however they not need to be included in legislation at present.

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 extended definition of PIEs may now include companies which to date fell under the audit exemption thresholds this will add to the companies' costs. In addition the audit committee and transparency reporting obligations will lead to additional costs.

We also believe that the additional regulatory burden may cause firms currently auditing such companies to cease to do so given the anticipated increased costs to the firms.

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?

We believe this issues raised in this question demonstrate the need for clarity in transposing the Directive and Regulation and the need for minimum gold plating.

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 have no data which would enable us to respond to this question.

Competent authorities

Q9. Do you agree the FRC should be the single competent authority with ultimate responsibility for the audit regulatory tasks and for oversight under the 2006 Directive as amended by the new Directive and under the Regulation?

In our view the aim should be to make minimal and only necessary changes to the regulatory and supervisory structure that currently exists. In our view the current structure works well and there is no evidence that the radical repositioning proposed in this Paper represents an improvement.

We believe that DBIS should concentrate on meeting the requirements of the EU legislation; this legislation, in our opinion, provides a framework within which the Member States can adopt a regulatory model which works best for them. In particular, in our view it provides for multiple competent authorities with one being charged with overall responsibility of ensuring the system of regulation was working effectively and in the public interest and with additional functions as set out in the regulations.

As stated we believe that Article 32 facilitates a continuation of the current UK regime, enabling the RSBs to continue as 'competent authorities' or, alternatively 'other authorities or bodies' as referenced in that Article. In Ireland, implementation of the 2006 Directive was in a manner which designated the Recognised Accountancy Bodies as Competent Authorities and IAASA as the Competent Authority with responsibility for oversight.

The DBIS proposals in our view goes considerably beyond what was ultimately agreed in the April European texts and do not result in the best model. This is not merely gold-plating but a significant repositioning of the regulatory structure.

We remain supportive of the RSBs continuing to have direct legal recognition and responsibility for supervision and regulation of those statutory auditors/audit firms other than where this is not allowed in the EU legislation. While Article 32 permits an alternative approach of a State agency (FRC) having responsibility for all aspects of regulation of statutory audit (PIE related and non-PIE related) with the possibility of delegating back to other bodies (RSBs) specified tasks, we consider that this represents a significant dilution in the role and status of the RSBs. We do not believe this to be in the public interest.

In our view the current model has allowed the FRC to challenge robustly the performance of the RSBs and in a manner very much fulfils its public interest responsibilities. In taking over the position of Government without the appropriate checks and balances not only exposes the FRC to considerable regulatory risk but also similarly exposes and also weakens the position of the professional bodies.

Whilst recognising the EU legislation around competent authority is capable of interpretation we believe that on this occasion it has been misinterpreted. We do not accept the interpretation that could be applied of Article 32 of the Directive requiring a single competent authority. Article 32(4a) makes clear as does Regulation Article 20 that more than one competent authority can be envisaged, one of which should have ultimate responsibility. The independence requirement of Article 32(3)) applies to the competent authority with ultimate responsibility, not to the other

competent authorities. "Ultimate responsibility" is for oversight, not for the performance of the regulatory tasks. The other competent authorities referred to in Article 32(4a) are simply required to be "organised in such a manner that conflicts of interest are avoided". This again supports the argument as to multi competent authorities.

We believe that Chartered Accountants Ireland's regulatory governance arrangements meet these criteria as set out in Article 34 (4a). We would suggest that there is a role here for BIS and/or the ultimate competent authority to set out what the governance requirements of a competent authority should be, with due consultation.

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?

As noted above we support the inclusion in legislation of the definition of PIEs as set out in the EU legislation. We do not believe that it is necessary to retain the distinction of 'major audit' , in addition the definitions in schedule 10 of the Companies Act 2006, which had allowed auditors of less than 10 PIEs to be inspected by the RSBs, needs to be amended. The processes and procedures which exist at the moment meet the criteria as set out in the EU legislation and no fundamental change is required.

There is nothing in the EU legislation which would require the existing licensing arrangements to change.

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?

Accountants undertake a wide variety of activities and the professional bodies are accordingly engaged with a number of other regulators. The EU legislation did not address the work of accountants generally. In our opinion it is inequitable to include areas extend the statute outside statutory audit given that accountancy services are not reserved to a defined group of persons and are not therefore globally subject to supervision. We do not believe this 'uneven playing field' should be enhanced by inclusion in primary legislation.

We do not believe the current arrangements made by letters of exchange between the RSBs and the FRC are not affected by the EU Audit Reform legislation.

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.

No. As set out above, we do not believe there is a requirement or a need for a single competent authority in respect of non-PIE audits. We believe that the role of the ultimate competent authority should be to supervise the compliance of the other competent authorities (the RSBs). Unnecessary delegation of active regulatory obligation would in our opinion compromise the FRCs ability to provide oversight, in the public interest.

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

As stated previously the prime role of the FRC is and should be to limit the risk of systemic risk to the economic markets, it can only achieve this by focusing on PIEs and where Government deems it appropriate other entities which pose systemic risk.

FRC involvement at other levels creates unnecessary cost and dilutes effort and focus.

The rights and responsibilities of the other competent authorities (the RSBs) should be set out in legislation by Government.

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 would refer to our earlier comments. There are no additional issues we can identify at this juncture.

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 Act65? If so, which body or bodies do you think should have statutory powers for the removal of statutory auditors from the register?

The RSBs currently have this responsibility under existing legislation we see nothing in the EU legislation which would require this to change.

The decision to require a licence to be suspended or terminated for the auditors of PIEs can come from the FRC under their existing powers in section 1225 of the CA06 as amended. They can also exercise this for public interest cases. If it is not a public interest case we are unsure why it would be appropriate for the FRC to be involved if their primary focus is that of systemic.

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?

The FRC already has an oversight role enshrined in existing legislation.

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?

If the current regulatory framework is followed we would expect additional costs to be minimal. However, the cost for firms currently performing less than 10 PIE audits who are not covered by the FRC's inspection regime costs will increase significantly, to cover the additional inspection arrangements.

Audit fees and non-audit services

Q18. Do you agree that the provisions of Article 4 of the Regulation on the cap on non-audit services should be included in amendments to the FRC's ethical standards for auditors?
Please provide information to support your answer.

Yes. We agree with this proposal. Maintaining auditor independence provisions within a single set of requirements is appropriate. However our position on this issue should not be interpreted as agreeing that FRC should have full discretion in deciding to impose requirements additional to those in the EU Regulation. In the absence of compelling evidence to the contrary, we see no reason as to why the FRC should depart from the minimum requirements of the Regulation.

Regulation 537/2014 constitutes a comprehensive package of measures aimed at underpinning auditor independence, providing greater transparency on the role of audit, and strengthening the regulations of auditors of PIEs through State delivery of regulation and supervision.

Taken as whole, we believe the measures in the Regulation of themselves (caps on fees for non-audit services ('NAS'), restrictions on the nature of NAS that may be provided by auditors, mandatory audit firm rotation) provide a sufficient and appropriate framework to achieve the above objectives without the need to for additional 'gold plating' by Member States.

Those most impacted by these measures, PIEs themselves, will look to implementation of these measures in a manner which keep associated costs to a minimum and provide the necessary competitive environment to conduct business efficiently.

It is our position that the cap of 70% should not be reduced further.

The combination of the cap, new restrictions on non-audit services, and the strengthened role of audit committees will provide sufficient safeguards in respect of auditor independence.

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?

See our answer to Question 18.

Q20. Do you agree that the Member State options in Article 4, to set more stringent requirements on the cap and on the auditor's independence where their total fee income from a PIE exceeds 15% of their total fee income overall, should be capable of being applied by the FRC in its ethical standards for auditors?
Please provide information to support your answer.

We agree that it remains appropriate that the FRC retain the responsibility for setting ethical standards for auditors. Our answer to Question 18 is relevant in this regard.

We have no evidence suggesting that the existing requirements in ES 4 which go beyond the EU requirements are causing any particular difficulties in practice. We have no particular objection to these thresholds remaining as is.

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. We are supportive of this proposal and for the adoption of this Member State option.

It makes sense to permit exemptions from the '70% requirement' subject to the agreement of the competent authority. It is not unusual for the auditor to be required to carry out additional work of a non-audit and non-routine nature – which may result in fees exceeding the cap – e.g. unanticipated due diligence, special investigations, responding to requests from regulators, mergers, and IPOs. The fact that this temporary exemption is subject to competent authority approval provides the appropriate the safeguard. Measures elsewhere in the Regulation provide the necessary transparency.

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.

In principle, and consistent with our answers to earlier questions, we are supportive of the FRC continuing to be responsible for setting standards in this regard. For clarity, we would emphasise that the adoption of a more stringent approach to non-audit services should only take place where

there is compelling evidence that such additional measures are necessary to underpin quality and auditor independence.

We are not aware of the existence of such evidence and so are not supportive of the 'white list' approach set out in the FRC consultation running concurrently with this one.

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?

Consistent application of the blacklist requirements across EU Member States will be essential towards the achievement of a common supervisory and regulatory regime for PIE auditors. We would encourage DBIS in its ongoing discussions at EU level to seek to achieve common application of this requirement.

Q24. Do you agree that implementation of the revised requirements on ensuring and documenting auditor independence in the 2006 Directive should be implemented primarily via the ethical standards, with amendments to the existing legislation as necessary only to:
(a) underpin the standards? And,
(b) introduce simplifications for audits of small non-PIEs?
Please provide further information to support your answer.

We agree with this proposal, again, subject to the proviso of minimum gold plating by the FRC.

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.

Article 14 addresses disclosure and analysis by auditors to competent authorities of total fees earned by the audit firm. Such information is currently provided in the annual Transparency Report required by Directive 2006/43/EC.

To the extent that the question is asking whether a similar analysis should apply to fees earned from individual PIEs, we have no objection to this proposal.

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?

We do not possess data or information of this nature.

Tendering and duration of audit engagements

Q27. Audit Committees must submit a recommendation to the board for the appointment of an auditor. However, under Article 16(1) sub-paragraph (2) of the Regulation, this does not apply where the Member State has provided an alternative system for the appointment of the auditor.

The current alternative systems set out in the Companies Act 2006 are where:
- the directors appoint the auditor before the company's first accounts meeting;
- the directors appoint the auditor to fill a casual vacancy in the office of auditor; and where,
- the Secretary of State appoints the auditor because a public company failed to do so.

Do you consider that all of these alternative systems for the appointment of an auditor should continue to operate in the UK as they do at present? Are there any other systems that should also be provided for on the grounds that a competitive tender process is not appropriate?
Please provide further information to support your answer.

Yes. We consider that the current system remains appropriate and see no reason for amendment to this.

Q28. Where the PIE is exempted from having an audit committee (eg because it is an unlisted bank), there is no provision as to which body should fulfil the audit committee's role. Do you agree that in this situation the directors should determine the recommendations that should be put to shareholders of the audited entity?
Please provide information in support of your answer.

Yes. We agree.

Q29. The Government does not intend to take up the option to provide for an extension of the maximum duration of the engagement beyond 10 years where a joint auditor is engaged. Do you agree that the replacement of a single auditor with two joint auditors, one of whom was the original auditor, should be made on the basis of a retender?
Please provide further information in support of your answer.

We would have no objection to this Member State option being exercised.

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?

In essence, the EU Regulation requires retendering at least once every 10 years and with the maximum period of tenure not to exceed 20 years (absent joint audit). We are supportive of these new requirements being implemented in a manner that is as uncomplicated as possible. To the extent that the above suggestion is compatible with the Regulation, we are supportive of the proposal.

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)
b) when the audit engagement was last retendered? (Yes / No)
c) the start of the next accounting year in relation to which the company expects that the auditor appointment will be based on a tender? (Yes / No)
d) the directors' reasons for considering that the proposed year is in the best interests of the company's members? (Yes / No)
Do you consider that any other information should be included in addition the above?
Please provide further information to support your answer.

To the extent that there is evidence that users would find this information useful then we have no strong objection to it being provided in this manner. However, we would point out that this is not a requirement of the Regulation and, as such, is gold plating.

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?
Please provide further information in support of your answer.

See our response to Question 30.

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 have not identified any particular issues other than that normal penalties should apply for non-compliance.

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 are not in possession of information of this nature.

Audit reporting, and reporting to the audit committee

Q35. What issues, if any, do you consider arise from the inclusion in legislation on audit reporting of a requirement for the auditor to include a statement in the audit report where there is a material uncertainty relating to events or conditions that may cast significant doubt about the entity's ability to continue as a going concern? How do you consider these should be addressed?

This matter is, to a large extent, already addressed through existing standards issued by the FRC. Primary legislation should therefore be amended by the minimum required to comply with the Regulation.

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 agree that this is the most logical way of giving effect to these requirements.

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?

To the extent that amendments are required to the FRC's standards to reflect these provisions, regard should also be had to the equivalent IAASB standards implementing similar provisions. FRC should seek to converge to the maximum extent with the relevant international standards.

Q38. Do you agree that the provisions in Article 11 of the Regulation on the additional report to the audit committee should be included in amendments to the FRC's International Standards for Auditing (UK and Ireland)?
Please provide information to support your answer.

Yes. We agree that the FRC should have responsibility for this. Whether such detail should be included with the core text of the standards needs further consideration. It may be more appropriate for these provisions be addressed within specific application guidance.

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 have not identified any additional 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?
(b) the additional annual cost of the audit committee considering the additional report?
(c) how these costs vary by size of PIE?

We are not in possession of such information.

Audit exemption thresholds

Q41. Do you consider that the small companies audit exemption thresholds should:
(a) remain aligned with those for the small companies accounting regime, so that the number of audit exempt small companies will increase in line with the increase in the small companies accounting thresholds;
(b) remain unchanged so that the turnover and balance sheet thresholds are considerably lower than the thresholds for access to the small companies accounting regime; or,
(c) be amended in some other way (please set this out)?
Please provide further information in support of your answer.

We are supportive of the alignment being maintained.

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?

No other issues occur not addressed in answers to individual questions.

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 information on this.

Technical standards and audits of consolidated accounts

Q44. Do you agree that the implementation of EU requirements on technical standards should be primarily through changes to the FRC's ISAs (UK and Ireland)?

Yes. We agree with this course of action.

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 issue.

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

No other issues occur.

Q47. Do you agree that following any adoption of ISAs by the European Commission, the FRC should have the discretion to:
(a) apply standards where the Commission has not adopted an ISA covering the same subject-matter; (Yes / No) and,
(b) impose procedures or requirements in addition to adopted ISAs if these national procedures or requirements are necessary to give effect to national legal requirements or to add to the quality of financial statements? (Yes / No)
Please provide further information in support of your answer.

While we agree that FRC should have such discretion, it should be exercised only where compelling evidence that such additional measures are necessary and will result in improved audit quality.

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)?

The proposed approach seems logical. We have no additional observations.

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?

See response to Question 48.

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 have no data on this.

Reporting to supervisors

Q51. Do you consider that the single competent authority with responsibility for regulation of audit should be designated to receive the information required to be provided to supervisors of PIEs when it is provided to:
(a) the PRA for banks, building societies and insurers?
(b) the FCA for other PIEs? or
(c) both?

We agree that it is appropriate for the single competent authority (assumed to be the FRC) to receive such information. There may be some need to identify potential duplicative reporting obligations and how these interact with each other as well as a mechanism to facilitate decision making by the above regulatory agencies on which will be responsible for any subsequent follow up action.

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 have no such information.

Recognition of auditors from other member states

Q53. Do you agree that we should enable the single competent authority to exercise the choices of aptitude test and/or adaptation period for the approval in the UK of individual statutory auditors from other Member States?
Please provide further information in support of your answer.

We believe that the registering professional bodies should retain the right to insist on applicants passing an aptitude test. An exam approach is robust and protects audit quality. If an applicant is competent, they will pass the test.

Q54. Were the single competent authority to have this role, what do you consider would be the implications for the operational provision (currently by the professional supervisory bodies) of:
(a) aptitude tests; and
(b) adaptation periods (if these were to be provided for)?

How would this be affected by the CEAOB progressing discussions "with a view to achieving a convergence of the requirements of the adaptation period and the aptitude test" across the EU?
The transfer of individuals who are statutory auditors between firms located in different member States (and elsewhere) is a reasonably common occurrence. Such individuals will normally be highly experiences in international auditing and financial reporting practice. We are therefore of the view that there is merit in considering the Option of an 'adaptation period' perhaps with appropriate safeguards to be developed by FRC.