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

19 March 2015

Dear Mr Smith

Auditor Regulation: Implications of the EU and wider reforms

I am pleased to present the response of ACCA (the Association of Chartered Certified Accountants) to the discussion document referred to above.

ACCA welcomes most of the proposals put forward by the Department of Business Innovation and Skills (BIS) and believes that they will establish a more effective framework for the regulation of auditors.

However, ACCA believes that the proposal to establish a single competent authority instead of retaining the current position whereby the Recognised Supervisory Bodies (RSB) are also designated competent authorities in accordance with Article 35 of the 2006 Statutory Audit Directive is misguided, short-sighted and will be detrimental to the national and public interest.

Designation of bodies and delegation of tasks

Currently, the UK FRC is the competent authority with ultimate responsibility for auditor regulation and undertakes directly the quality assurance of auditors of Public Interest Entities (PIE) and investigates matters that are deemed to be of the public interest. The RSBs, comprising ACCA, the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Ireland and the Institute of Chartered Accountants of Scotland are responsible for all other regulatory activities and operate under the oversight of the FRC.

Under the EU requirements for reform, the current arrangements as summarised above could be continued, but the BIS discussion document proposes that the arrangements be changed to designate the FRC as the single competent authority with the accountancy bodies currently designated as RSBs to lose their status as competent authorities. Under the proposed arrangements, the FRC will seek to

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delegate regulatory tasks to the accountancy bodies and reclaim those tasks as and when it considers it appropriate.

We do not believe that the consequences of these proposals have been adequately considered within the discussion document.

Dilution of focus

Presently, the FRC undertakes only the quality assurance of auditors of PIEs and investigates matters that are deemed to be of the public interest: it relies on the RSBs to conduct all other activities to regulate auditors, albeit with FRC oversight. The discussion document does not consider whether the proposed change to expand the responsibilities of the FRC to cover all auditor regulation will result in a dilution of focus on matters of public interest on the part of the FRC, arising from being directly responsible for all auditor regulation. We do not believe this potential dilution of focus on PIEs to be in the public interest.

Consistency with the Irish proposals

The arrangements for auditor regulation in the UK and Ireland are separate but interlinked. For example, standards of accounting, auditing and ethics are promulgated by the FRC and adopted by the Irish Auditing and Accounting Supervisory Authority (IAASA). In addition, the UK RSBs are also Recognised Accountancy Bodies in Ireland, which is broadly the same as being an RSB in the UK. Changing the fundamental status of the UK RSBs will mean that their relationships with the FRC and IAASA, which are presently on a broadly equal footing, will also change so that they are recipients of delegated tasks by the FRC but are competent authorities in Ireland. This will inevitably cause confusion and will adversely impact the operational efficiency of the accountancy bodies. It will also undermine the authority of the RSBs.

Delegation of tasks by the FRC and related costs

The discussion document fails to explore the arrangements, including financial, under which regulatory tasks may be delegated by the FRC to the accountancy bodies.

There must be a presumption that as the proposed arrangements would not be based on statutory recognition of the accountancy bodies, they would mirror any commercial outsourcing arrangement. We would therefore expect that the accountancy bodies would be compensated in full for any regulatory work

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undertaken on a delegated basis and that the charges currently levied by the FRC for oversight would no longer apply.

Undermining the worldwide reputation of the UK accountancy bodies and their qualifications

The UK accountancy bodies command a worldwide reputation second to none. They have set the benchmark for the profession globally and lead the agenda in the development of the profession. The value attached to holding a UK accountancy qualification is evident from the number of foreign nationals that aspire to obtain one, either by training in the UK or obtaining UK qualifications abroad. For example, over half of ACCA's 174,000 members as at 31 December 2014 were located outside the UK and Ireland.

While so many foreign nationals pursue UK accountancy qualifications because of their perceived quality and because they command respect worldwide, it is clear from our members who are foreign nationals that statutory recognition in the UK as a competent authority is a key component that contributes to the respect with which UK accountancy qualifications are held. Removing statutory recognition will have a detrimental effect on the perception of the UK accountancy bodies among foreign nationals and have an adverse impact on the number of foreign nationals that pursue UK accountancy qualifications in future. We are also of the view that the proposal would irretrievably damage the global standing of the UK accountancy profession and to the firms that value their long association with it. We believe that this will also erode the standing of the UK internationally and do not consider this to be in the national interest.

Conclusion

We believe that BIS should have facilitated a public debate on the proposal to remove the competent authority status of the RSBs and should only have proceeded if it was able to present compelling arguments for change.

Furthermore, the BIS discussion document does not provide any justification for changing the status of the RSBs. The current arrangements work reasonably well and no case has been made that the proposed arrangements will be more effective.

In this letter we believe we have put forward sound arguments in the public and national interest for preserving the status of the RSBs as competent authorities.

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These include minimising costs, preserving FRC's focus on public interest matters, consistency with the proposed arrangements in Ireland and preserving the worldwide reputation of the UK accountancy bodies.

Yours sincerely

Peter Large

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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 February 2015

Name: **David York**
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Address: **29 Lincoln's Inn Fields London WC2A 3EE United Kingdom**

The form can be submitted by email or by letter to:
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Corporate Frameworks, Accountability and Governance
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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
	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) Accountancy Body ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers. We support our **170,000** members and **436,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of **91** offices and centres and more than **8,500** Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

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.

As well as responding to this discussion document, we have given our views in relation to the consultation of the Financial Reporting Council. We are supportive of the intended balance between legislative and non-legislative implementation that is embodied in the two consultations. To maintain a high standard of UK auditor regulation after implementing the changes, we believe that it is important to take advantage of non-legislative matters as they can subsequently be more responsive to changes in circumstances.

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.

In relation to Member State options, we believe that there are two overriding considerations. The first is that by taking a particular option a Member State may be, in effect, gold plating the European legislation to introduce further national requirements. This may be to continue existing provisions or to introduce new requirements. The overall effect of such gold plating is that it increases the difficulty and cost of complying with the requirements, which may be to the detriment of the national economy. We believe that potential gold plating needs very careful examination before it is allowed to happen. We support, therefore, the Guiding Principles for EU Legislation, introduced by the Government in July 2011.

The second consideration is that there are considerable advantages to having a level playing field across Europe. If no Member State takes advantage of a Member State option then that would establish a level playing field. This is not a realistic prospect and so it is important that the UK implementation is carried out in the knowledge of what jurisdictions are intending with respect to Member State options. In this regard we are pleased to see that the UK has participated actively in the coordinating efforts of the European Commission. Whether or not a Member State option is commonly taken by Member States, a separate evaluation of the impact must nevertheless take place.

Given the close relationship between the law and auditing standard setting in the UK and Ireland, it is important to establish as far as possible a consistent approach that is appropriate in both Member States.

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

We comment elsewhere in this response on the implementation issues that have been addressed and believe that the coverage of the measures in these chapters is adequate.

Because the focus of the discussion is implementing an EU Regulation and Directive, there is little scope for the discussion to extend to consideration of 'issues', as that word might be interpreted in the political sense.

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?

The European legislation makes a clear distinction between matters relevant to public interest entities (PIEs) and those of wider application. Moreover, an increasing number of smaller companies are able to take advantage of exemption from statutory audit. These circumstances mean that there is little scope for the proposed implementation to adversely impact smaller companies and audit firms. Nevertheless, such change is inevitably disproportionately costly for such entities to implement, while many of the benefits accrue only to stakeholders in the audit regime for PIEs.

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

ACCA would recommend that the definition of public interest entity (PIE) not be extended beyond the legal minimum. As the consultation notes, there would be considerable resource issues to consider if any additional entities were to be brought into scope as PIEs. Keeping the number of PIEs to a minimum should enable resources to be focussed on entities that are of the greatest public interest.

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?

It is clear that entities that were not previously a PIE and their auditors will have to accommodate the changes introduced by the implementation of the Regulation and Directive. It would be usual for such a change to include the possibility of difficulties in the first year and that there would be an inevitable disproportionate effect on smaller entities. There are no particular issues that we wish to single out in these circumstances.

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?

In addition to the matters we mention in our answer to question six above, the discussion document recognises the need for appropriate measures in legislation (or non-legislation) to apply the changed regime in relation to the broader categories listed in question seven. We do not express views on the detail of such provisions at this stage.

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?

We do not answer this question. It will be preferable to approach firms directly concerning such familiarisation costs.

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

We do not answer this question. It will be preferable to approach firms directly concerning such costs.

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

We do not answer this question. It will be preferable to approach firms directly concerning such costs. We would caution, however, that it is not just the size of audit firm that needs to be considered. Firms becoming subject to the more stringent regime appropriate to the audit of a PIE may be affected to a greater extent than others, but we have no data on the relationship between that categorisation and size.

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

We answer 'no', not because we believe that the FRC is unsuitable as a competent authority, but because the question avoids a fundamental preliminary consideration.

We find the discussion document to be in error in suggesting (page 13) that there is a requirement to 'designate a "single competent authority" with ultimate responsibility for all the regulatory tasks provided for in the Directive'. The actual requirement (Article 32 (4a)) refers not to the Directive, but to that Article: 'Member States shall designate only one competent authority bearing the ultimate responsibility for the tasks referred in this Article . . .'
This amounts to pre-judging that further competent authorities are not appropriate. We disagree with this conclusion and strongly suggest that the accountancy bodies can fulfil valuable roles as competent authorities in their own right.

As an accountancy body, it might be considered to be self-serving for ACCA to argue strongly for this. Given the way the consultation avoids asking about the relevant issues, there is a danger that responses from others will not address this issue and we are obliged, therefore, to advance the following arguments in the public interest. We deal firstly with the manner in which supervisory functions are carried out and secondly with the advantages of there being several competent authorities.

We see considerable merit in the existing arrangements whereby the accountancy bodies that are Recognised Supervisory Bodies (RSBs) under the Companies Act 2006 register and supervise auditors. We welcome the involvement of an independent regulator as a further layer of confidence for the users of the services of professional accountants.

The different treatment of PIEs under the Regulation and Directive recognises that regulation has to be proportionate to the benefit derived. Direct regulation by the FRC of all auditors would, we suggest, not deliver this. There is a danger that the FRC may find its resources diverted to the supervision of auditors in whose work there is little public interest by comparison to the firms that it already supervisors. It is difficult to maintain regulation when those being regulated occupy a very wide spectrum ranging from the largest international firms down to sole practitioners.

In our view restricting the direct supervision of auditors of those involved with the audit of PIEs meets the needs of users of audited financial information while preserving the benefits of the current regime that is both efficient and easily understood.

[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 RSBs have not only carried out many of the supervisory functions in relation to registered statutory auditors and audit firms but have provided a mechanism to enhance the quality of other professional services where no audit is involved. There is considerable benefit from the synergy between these two activities. As statutory audit exemption limits have risen, firms that previously were authorised to audit have withdrawn from that market increasing the importance of the wider role of the RBSs in supporting public confidence in the accountancy profession and in business.

If the FRC is appointed as a competent authority with ultimate responsibility it may delegate functions to the professional bodies. There is no legal obligation on those bodies to accept such delegation and, if it were accepted, then the bodies would be justified in seeking payment from the FRC to defray their costs. Moreover, existing financial contributions by the bodies to fund the FRC would have to be reduced to reflect the diminished role of the FRC in overseeing the bodies.

While, in operation, delegated functions may be difficult to distinguish from those functions carried out by a body as a separate designated competent authority, we believe that the introduction of delegation would cause irretrievable damage to the global standing of the UK accountancy profession and to the firms that value their long association with it. The value of a UK accountancy qualification is underpinned by the statutory recognition of the accountancy bodies. If they are not designated as 'competent authorities' that will place them at a considerable competitive disadvantage when compared to bodies in other jurisdictions.

This is not solely a matter of concern for the UK economy as the ability of ACCA to attract people of application, ability and ambition around the world to a business-relevant, first-choice accountancy qualification helps build capacity in developing as well as developed economies. Through our involvement we bring long-term value to economies in which we develop and support professional accountants.

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 refer to our answer to question nine above.

If done carefully, there is no reason why implementing a new statutory framework should introduce inefficiencies into what is currently an efficient arrangement. There is a prima facie difference between the two circumstances in that failure to follow an auditing standard would become a breach of the law rather than the rules of a professional body, so care needs to be taken to avoid any unintended consequences, for example reducing the competition in the audit market.

Q11. What issues, if any, do you think might arise for the current investigation and disciplinary arrangements between the professional supervisory bodies and the FRC, that apply to accountants generally as opposed to only auditors, given the changes in relation to audit? If there are any, how should they be addressed?

We refer to our answer to question nine above.

If the FRC increases its direct supervision of auditors, there will be a need for more communication relating to matters arising from that that ought to be brought to the attention of the professional bodies. The bodies may have difficulty in maintaining investigation and disciplinary capacity as their audit role diminishes, but it should nevertheless be possible to overcome those issues.

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

We refer to our answer to question nine above concerning the assumption that there is only a single competent authority.

As set out in the consultation paper, if the Government allocates a responsibility to the single competent authority, the latter should be permitted to delegate it as appropriate. However the concept of delegation is new and we do not believe it is an appropriate approach. Instead, for the reasons set out in answer to question nine, we would prefer the RSBs to be designated as competent authorities in their own right.

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

We refer to our answer to question nine above.

The retention of a responsibility (ie not delegating it) would necessarily be at the discretion of the single competent authority. If that was considered to be unreasonable in the circumstances (eg by a professional body) there should be a mechanism to challenge that judgement. Initially, the intended retention could be exposed for public comment allowing confirmation that the single competent authority's retentions will be in the public interest.

The reclaim of delegated responsibilities is likely to arise only where deficiencies are identified for which reclaim is an appropriate response. While this might occur piecemeal, reclaim might extend to a whole category of responsibility. It is important that there are safeguards in place to allow the resolution of differences of view between the single competent authority and a professional body.

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.

Provisions in legislation on the content of the rules of the supervisory bodies currently relate either to the body's status as a Recognised Supervisory Body (Schedule 10 of the Companies Act 2006) or a Recognised Qualifying Body (Schedule 11 of the Companies Act 2006).
We believe that no change is necessary to any of these provisions.
A case could be made for eliminating provisions directly relevant to tasks no longer carried out (as they have been transferred to the single competent authority). However, mere avoidance of apparent duplication is, we believe insufficient justification and indeed may be short-sighted. By leaving the existing requirements in place it:

- Allows for future delegation
- Provides international consistency as members of the bodies work in other jurisdictions
- Avoids possible drafting difficulties where provisions would have to be partially removed

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?

The register gives transparency to the underlying eligibility for inclusion. We distinguish its orderly operation from what this question is essentially about – removal of eligibility for inclusion. Clearly an individual may voluntarily effect their own removal by no longer satisfying the criteria for eligibility. Forced removal would be the result of disciplinary action and we suggest therefore that those bodies in a disciplinary relationship to the auditor should have the necessary power to sanction by suspension or withdrawal of registration.

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 believe that the current position is the most suitable and that a change is not necessary.

Some of the rules of the RSBs are proscribed by legislation but further rules exist that are not proscribed; this allows flexibility and rapid change if that is necessary. Moreover, while some of the UK accountancy bodies have adopted similar rules, ACCA as a global body has to ensure that its Members Rulebook is understandable and usable in many jurisdictions. Single competent authority approval would not be appropriate because of its extra-territorial impact.

Q17. What do you consider are the costs and benefits in monetary terms and in terms of the effectiveness of audit regulation of the proposals in this chapter and of your preferred approach to implementation of these provisions?

We refer to our answer to question nine above.

We believe that the focus on PIEs allows concentration of the favourable impact of independent regulation in the areas where users have greater need for confidence in audited financial statements. In general, PIEs have greater resources than what might be described as an average company and are best placed to absorb increased costs that go

[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.

together with increased confidence. We do not seek to advance estimates for the costs and benefits as that is a matter for parties more directly affected.

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

It is simpler if the requirements relating to auditor independence are collected together. Inclusion in the FRC's ethical standards for auditors would achieve this. We agree with the analysis and intentions relating to implementation expressed in the section of the discussion document on pages 25 and 26 headed 'What implementation is needed?' This position underlies our answers to questions 18 to 26.

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?

Ordinarily, a cap on non-audit services should be simple to operate, so long as the parameters, such as the base years are properly specified and known. The operation of a cap may be disadvantageous to the audited entity in two circumstances: firstly where a continuing service has to be terminated and secondly where the need for a non-audit service arises unexpectedly, reducing the time available to seek quotes from other firms. It is sensible for there to be a power available to the regulator or Government to grant an emergency exemption subject to appropriate safeguards being put in place to mitigate any actual impairment of auditor independence.

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 agree that the power to be more stringent should be put in place. Whether existing provisions should continue that are more stringent is a different question and one that ought to be answered not by what the existing provision is but whether, taken together with all the changes introduced by the European legislation, there is still a valid case for it.

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

We agree that this power should be available. We caution, however, that systemic exemption should not be given for any particular reason or industry as the need for exemption must be examined on a case-by-case basis.

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 the power to be more stringent should be put in place. We further agree that the FRC's ethical standards for auditors are the best place for this provision. Neither of these answers should be seen as support for the FRC actually applying more stringent requirements from the outset.

Q23. What issues, if any, do you consider arise from the application of the provisions on the blacklist of non-audit services? If there are any, how do you consider these should be addressed?

There is a possibility that audited entities will be commissioning non-audit services when the blacklist is commenced. However, we believe that there is sufficient time before implementation for alternative arrangements to be made. Perhaps the greatest difficulty will be experienced by smaller PIEs that are first affected by the new regime as they have fewer resources available to resolve such issues.

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.

As we said in our response to question 18, we favour implementing such revised requirements in the FRC ethical standards for auditors underpinned as necessary by legislative change.

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

The requirement of Article 14 is for a return to a competent authority by the auditor, analysing relevant revenues. It would be consistent with that requirement for the analysis in the notes to the accounts of a PIE to be presented on the same basis. Users of the information in relation to a particular PIE would not be disadvantaged by this approach.

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 answer 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 answer this question.

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

We do not answer 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 answer 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

These alternative systems have stood the test of time and operate where independence is less of an issue because there is no incumbent auditor.

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

We suggest no further systems.

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 the absence of an audit committee, it is appropriate that the relevant functions should be carried out by the board as a whole.

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

We note the Government's intention not to provide for an extension of the maximum duration of the engagement where a joint auditor is engaged. Although this decision appears sensible in the current UK context, where joint audit is rare, if the extension is taken up widely across the EU it may assist in providing a level playing field if the UK were also to avail itself of this extension.

With regard to the replacement of a single auditor with two joint auditors one of whom was the original auditor we see mandatory re-tendering and rotation affecting consideration of whether there should be a tender or indeed whether the original auditor is prevented from continuing in any capacity. Where short periods are involved, the length of tenure of the original auditor is not a great consideration with respect to independence. We would be marginally in favour of allowing flexibility and reducing costs for those audited entities that feel the need to widen a single audit to a joint audit through not insisting on a formal retender. However, we accept that it may be more practical to adopt more certain rules and provide that there should be a retender.

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

Where an audited entity prefers to have tendering before the expiry of the maximum duration of 10 years, there is perhaps an expectation that a similar interval for future tendering would be preferred. However, the audited entity may legitimately change that view and seek to make use of the maximum duration. We do not believe that a change before the maximum duration should reset matters by in effect adding the number of years left before the maximum duration to 10 to give a revised maximum duration for the next audit engagement. We do not believe that this was the intention of the legislation. Moreover, the maximum duration should be seen as just that; there should be an expectation of review of the audit appointment prior to the maximum.

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

While we are generally in agreement with the inclusion of the data specified above, in years immediately following a re-tendering, the value to users of such information may be insignificant. We see scope for allowing an exemption for say three years in such circumstances, or at least presentation of an abbreviated statement. Immediately after a re-tendering, users are more likely to want to be informed about the reasons why the incoming auditor was preferred rather than the company's intentions in relation to an event that will only become relevant after the lapse of several years. Given the calls elsewhere in corporate reporting to reduce the length of annual reports we believe that extra disclosures should be kept to a minimum if they are not absolutely justified in being in the interests of users.

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

In order to make sense of the requirements in relation to tendering, the focus must be on the date the retendering takes effect (whether change or confirmation of status quo).

We refer to our answer to question 30, which is particularly relevant to (c) above. The maximum duration of auditor tenure should not be seen as a target to be aimed at; instead it is a back-stop to curtail over-extended periods of tenure.

We do not believe that it is appropriate to extrapolate from a current retendering period to one in the future. The company must be free to tender after a shorter or longer period (subject to an imposed maximum) on the basis of the circumstances at the time.

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 [you believe that] should they be addressed?

The application of sanctions is generally no different from the general case of sanctioning. In relation to the appointment of auditor, provisions would have to be put in place that were in keeping with the intentions of the legislation but nevertheless maintained the regularity of the office. While there exists a provision for the Secretary of State to appoint an auditor, that should be considered a last resort, especially if appointment is proposed as a power when there is an existing auditor.

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 answer this question.

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?

A requirement to modify the auditors' report in circumstances where the going concern basis is subject to uncertainly has been present in auditing standards for many years. We see no further issues arising from the inclusion of this matter in legislation.

It is instructive to consider that the changes in requirements facilitate reporting that better meets user needs. While auditors could have implemented such matters voluntarily, they have not hitherto done so because of the prospect of litigation and the spectre of joint and several liability hanging over them as 'deep pocket' participants in the capital markets. A change to the liability regime would ultimately benefit users.

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

These matters are rooted in the developments not only in the EU but in auditor reporting driven by the International Standards on Auditing issued by the International Auditing and Assurance Standards Board. The FRC should implement the most recently revised ISAs on reporting in order that its standards conform to international norms.

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

Because the auditing standards issued by the FRC for use in the UK and Ireland already implement many of the matters in the EU legislation, there will be little impact in comparison to the position in some other Member States. Nevertheless, more entities will be subject to the new provisions and there is a prospect that auditors will voluntarily apply the new provisions to audits of companies where such reporting is not mandatory. It may be worth liaising with HM Revenue & Customs to ensure that the new form of reporting does not cause any unnecessary investigation of accounts submitted for tax purposes. Instructions have been issued to inspectors at certain times in the past when there have been changes to reports, particularly those for small companies.

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

As with other similar provisions, we think it is most sensible to utilise auditing standards as the vehicle for introducing this.

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 do not believe that the application of the provisions of Article 11 of the Regulation should give rise to any difficulties.

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 answer this question.

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

We do not answer this question.

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

We do not answer 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 accept that it is administratively easier if audit exemption criteria are aligned with those for the small companies accounting regime. However, the existing UK approach to audit exemption (track the EU maxima) does not necessarily produce an optimum outcome. We do not set out a suggestion of amendment to the thresholds 'in some other way', however, because of the difficulty in making an objective assessment as noted below.

There is a temptation to regard the direct cost (monetary and management time) of audit as a 'burden on business' and to ignore the less easy to assess benefits it brings to the audited entity and society more generally.

We are not wholly persuaded by the argument that voluntary audit is to be preferred to statutory audit. While a voluntary audit allows 'good' companies to signal their good standing, that does not increase confidence in the whole affected business sector; while listed companies have the greatest incentive to commission a voluntary audit, an audit requirement is universally imposed.

Audit exemption in the EU is relatively recent, with many in business still aware of the legacy of audit and the heightened trust in companies as a result. Recent decades have seen a huge reduction in the availability of reliable company information on the public record. Individuals have been insulated from much of the risk associated with that as credit card companies, in effect, guarantee monies at risk. Were that safeguard to be eliminated, the repercussions could be highly significant. The maintenance of business to business confidence is a complex matter and unless there is a sea change in the availability of timely decision-relevant information the prospect of a breakdown in confidence in the unaudited business sector will remain.

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?

As an overarching matter, as we first mentioned in our answer to question two, the close relationship between the law and auditing standard setting in the UK and Ireland means that it is important to establish, as far as possible, a consistent approach that is appropriate in both Member States.

The discussion document poses no questions directly relevant to the content of its sections: 5.6 *Transferring information and confidentiality of information*, 5.7 *Dismissal of auditors*, 5.9 *Quality assurance of statutory auditors*, 5.11 *Cooperation between competent authorities within EU*, 5.12 *Cooperation of competent authorities with third countries* and 5.13 *Monitoring market quality and competition*. There are no issues arising in relation to these sections that we wish to raise.

In section 5.10 *Competent authorities – Investigations, sanctions and powers*, views are invited on certain Member State options. We comment as follows:

i. We are not persuaded of the merits of excluding infringements that are already subject to criminal law from the scope of administrative sanctions. However, we should welcome views on this.

We agree that there may be merit in keeping within the scope of administrative sanctions infringements that are already subject to criminal law. This may allow a holistic approach to matters that might otherwise have to be approached on a piecemeal basis and to timescales influenced by criminal proceedings.

ii. Our understanding is that the sanctions set out in the Directive are not comprehensive and that we should ensure that competent authorities or other authorised bodies retain the ability to apply other sanctions. We would welcome views on this point.

We agree that such powers should be taken.

iii. We do not consider it will be necessary to specify in law "additional factors" that may be taken into account in determining administrative sanctions (as provided for it Article 30b of the 2006 Directive, as amended) but should welcome views on this point.

We agree that there is no need specify such factors in law. Flexibility may be hampered if some (but not all) additional factors are identified.

We have no further issues to raise in addition to our answers to questions 44 to 54 below and as set out in our answers to the general questions at the start of chapter 4.

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 answer 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

We see this as necessary for consistency between the FRC standards and their international equivalents and to facilitate innovation when needed.

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 are unable to shed any light on this matter other than to suggest that few firms with PIE audits will need to draw upon the services of an outside reviewer.

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?

The UK should urge the EC to adopt ISAs rather than continue the current unsatisfactory arrangement whereby adoption has been a matter only for national standard setters.

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

This power should be taken but not abused. There is considerable merit in the UK adopting ISAs with minimum variations.

(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

This power should be taken but not abused. There is considerable merit in the UK adopting ISAs with minimum variations.

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 see no issues beyond the need for affected entities to take appropriate steps to ensure compliance.

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?

We see no issues beyond the need for affected entities to take appropriate steps to ensure compliance. Where no audit committee was in place, this will be more onerous.

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 answer this question.

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

We do not answer this question.

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

We do not answer this question.

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

We do not answer this question.

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

As the costs are to a large extent fixed, they will affect smaller PIEs disproportionately.

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

The discussion document advances no reasons in support of the proposal that the single competent authority should receive a copy of this information. We see no merit in imposing an extra obligation on auditors as the reports are not connected with the

quality of the audit but are intended to inform the supervisor of a PIE of a relevant matter.

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 answer 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 answer this question.

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

We do not answer 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 refer to our answer to question nine in which we disagree with the basis assumed in question 53. The power to exercise the choices should be taken by competent authorities in the UK.

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;

The implications for operational provision would be fundamentally affected by whether a single competent authority sought to delegate or operated in its own right. Because of our global reach, ACCA members can be individual statutory auditors from other Member States and it would not be appropriate for the operational provision to be removed from the individual professional supervisory bodies.

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

Please refer to our answer to part (a) above.

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?

In view of the lack of timescale and the absence of proposals we do not answer this question.

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